The International Agency That's Doing To The World What Paul Volcker Did To The United States

The Washington Monthly

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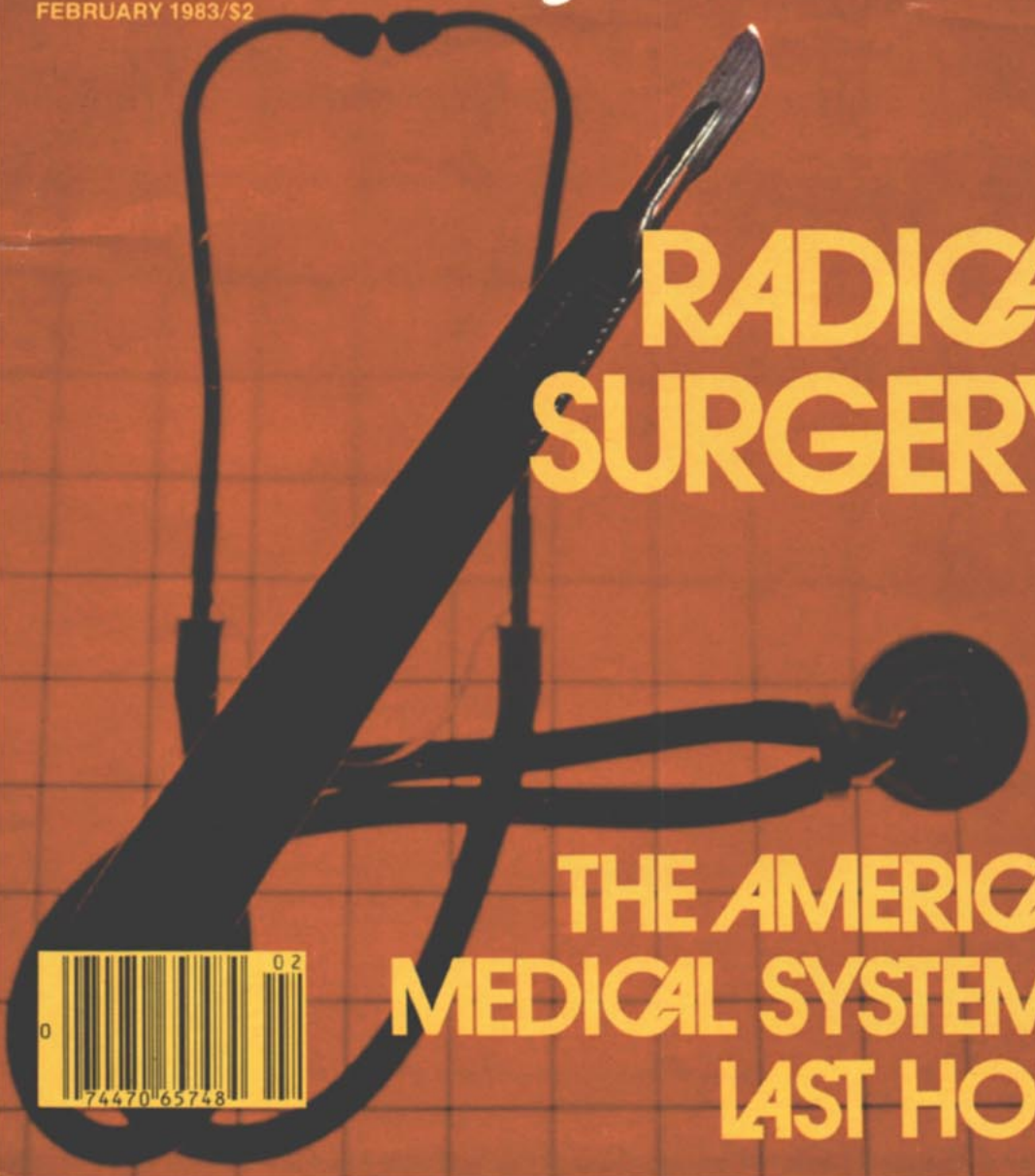

RADICAL SURGERY:

THE AMERICAN MEDICAL SYSTEM'S LAST HOPE

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We're doing what has to be done.

Danger–Handle With Care!

Love Canal dramatized the dangers of hazardous wastes. Business, government, and the insurance industry are showing that today's dumps need not be tomorrow's disasters.

In a modern, heavily-industrialized society, waste materials are abundant and, in some cases, dangerous. Toxic leftovers from many industrial processes can pollute the environment, contaminate the water, and threaten the public safety. And, let's face it, serious accidents have occurred.

Today, the combined efforts of legislators, regulators, responsible waste-generating companies, the insurance business, and a concerned public are being felt.

New laws and standards go a long way toward making sure that firms that produce, move, store, or dispose of dangerous substances do so with care. Government tests and inspections are meant to assure

industries have developed new technology and methods for safe waste disposal. But with materials this potentially dangerous, the best of care may not prevent every accident.

Although any accident with hazardous substances is bad news, some accidents are worse than others. And more insidious. Sudden spills and fires are quickly found and remedies quickly applied. Liability insurance for those accidents has been available

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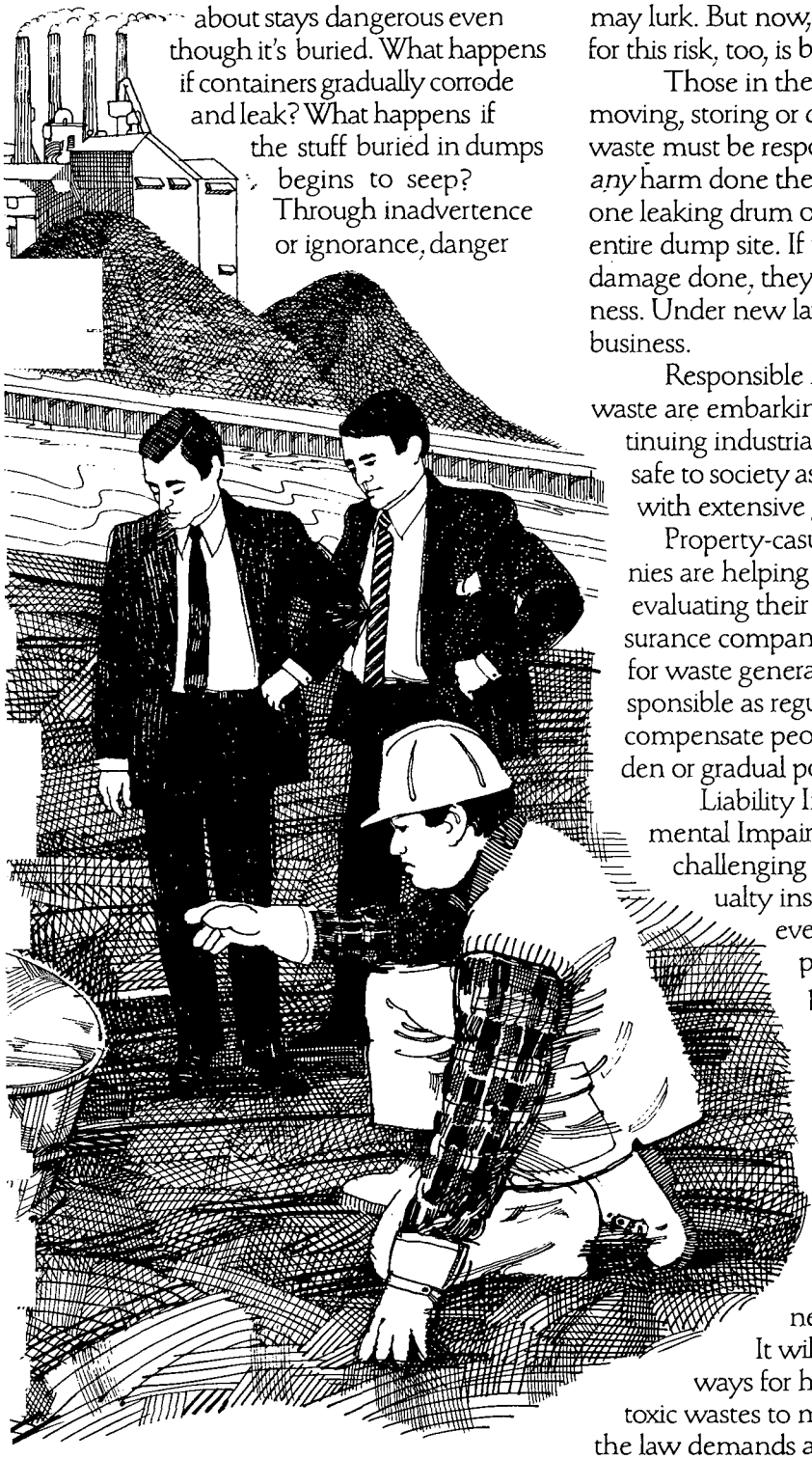

about stays dangerous even though it's buried. What happens if containers gradually corrode and leak? What happens if the stuff buried in dumps begins to seep? Through inadvertence or ignorance, danger may lurk. But now, liability insurance for this risk, too, is becoming available.

Those in the business of producing, moving, storing or disposing of dangerous waste must be responsible to the public for *any* harm done them—sudden or gradual—one leaking drum or the slow leaking of an entire dump site. If they can't pay for the damage done, they shouldn't be in the business. Under new law, they *can't* be in the business.

Responsible handlers of hazardous waste are embarking on a difficult path—continuing industrial activity in a manner as safe to society as possible and in compliance with extensive governmental regulation.

Property-casualty insurance companies are helping those waste generators by evaluating their risk potential. And now, insurance companies have devised a way for waste generators to be financially responsible as regulations require, able to compensate people harmed by either sudden or gradual pollution.

Liability Insurance for Environmental Impairment is one of the most challenging coverages property-casualty insurance companies have ever been asked to provide. The potential for loss to both people and property is large and little known. But if proper safety standards are issued and enforced by either federal or state government, and if insurance companies are allowed to administer the coverage with some sense of certainty, this new insurance can do a job. It will be one of the best ways for handlers and disposers of toxic wastes to meet the responsibility that the law demands and the public deserves.

We're working to keep insurance affordable.

This message presented by the **American Insurance Association,** 85 John Street, New York, NY 10038

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LETTERS

Regulatory Retorts

The mine safety section of "Reagan's Regulatory Report Card" [November] contains so many half-truths and untruths that one is left wondering whether they are the result of simple incompetence or a more mean-spirited and deliberate disregard for the facts.

The article does correctly state that the number of Mine Safety and Health Administration inspectors decreased in 1981. But let's give credit where credit is due: The level of employment in our coal mine inspection workforce began dropping a number of years ago, beginning with hiring restrictions first imposed during the previous administration. The article also fails to mention that MSHA began an intensive recruiting program this year that resulted in the hiring of some 208 coal mine inspectors and brought the entire inspection workforce to its highest total since 1978.

Mr. Alter claims that I have proposed halving the number of inspections required by law. I have done no such thing. I have suggested changes in the 1977 act that would give MSHA more flexibility in scheduling *surface* mine inspections, based on their history of accidents, type of mining method, etc., but I have recommended no change at all in the requirement for four annual inspections for underground mines.

Nor have I any plans to introduce "an honor system known as 'self-certification'" or anything similar to what Mr. Alter describes. What I have said, on many occasions, is that mine operators and miners must begin to take more responsibility for safety and health at the mine site. No matter how many inspectors we hire, and no matter how many citations they may write, the mines will never be free of illnesses and injuries until management and labor work together to improve safety conditions and practices. The government cannot, and should not, do this job alone.

FORD B. FORD
Washington, D.C.

Ford B. Ford is assistant secretary of labor for mine safety and health.

I must take issue with the hazardous waste information contained in "Reagan's Regulatory Report Card"

First, the estimate that 80 percent of the nation's hazardous waste has traditionally been disposed of unsafely does gross injustice to the efforts of both industry and government. Hazardous waste generators, transporters, and treatment, storage, and disposal facilities are now subject to federal and state regulation. Not even EPA's severest critics claim today that most hazardous waste is disposed of unsafely.

Second, the numbers cited in regard to the Superfund program for cleaning up abandoned waste sites are simply not correct. As of September 30, 1982, the fund had actually collected $452 million in taxes, not the $396 million cited in the article. But the pertinent figure here is the total amount that Congress has appropriated for Superfund, i.e., authorized EPA to spend on cleanup, which is $265 million.

Further, to say that EPA has spent only $80 million in this program is misleading. That represents the actual expenditures from the Treasury. A more indicative figure is the total amount which EPA has obligated under Superfund, i.e., the amount for which EPA has signed legally binding agreements to spend. This figure, $221 million, represents 83 percent of the $265 million Congress has appropriated.

RITA M. LAVELLE
Washington, D.C.

Rita Lavelle is assistant administrator of the EPA.

"Reagan's Regulatory Report Card" contained a serious inaccuracy about the Federal Trade Commission. To support his assertion (on page 15) that the Federal Trade Commission has "pulled back from breaking up monopolies in the industries under [its] jurisdiction," Mr. Alter states, "The FTC will not pursue restraint of trade actions against the American Medical Association and other professional groups that thwart competition by preventing advertising." This statement is false.

In fact, since my appointment by President Reagan, the FTC has maintained a strong record of antitrust law enforcement against professional associations that restrain competition by restricting truthful advertising of their members' services. In May of this year, we issued our final order against the American Medical Association preventing it from continuing to restrain competition among physicians. In August, we issued a parallel order against the American Dental Association. Similar orders were entered in July against the Broward County (Florida) Medical Association and against the Association of Independent Dentists based in Pueblo, Colorado.

The professions are making substantial strides in avoiding anticompetitive activities and we prefer, of course, to see this procompetitive change come about voluntarily rather than through confrontation with the FTC. Nonetheless, when violations of law do arise, the FTC enforces the antitrust laws vigorously against restraints on competition in the professions, and it is our intention to continue to do so.

JAMES C. MILLER III
Washington, D.C.

James Miller is chairman of the FTC.

Jonathan Alter replies:

First, mine safety. Ford claims he never hoped to halve the number of annual inspections, as I reported. But his boss, Labor Secretary Raymond Donovan, said in a letter in 1981 to Republican senators that such inspections should be re-evaluated. Leaks at the time suggested that the department wanted these cuts. Under pressure, the administration backed off, as it has on the issue of "self-certification," which Ford was quoted in 1981 as "seriously considering."

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On hazardous waste, I must quibble with Ms. Lavelle on the use of the word "traditionally." I used it to suggest the magnitude of the problem *before* all of the new regulation, which I think is clear from the context. My figures on Superfund come from Representative James Florio's subcommittee on commerce, transportation and tourism, which has primary jurisdiction over the fund. In suggesting I misled readers, Lavelle says that when choosing between the amount of money obligated for cleanup and the amount of money actually spent on it by the Treasury, the former is more important. I couldn't disagree more, and EPA's slowness in assuring that what is obligated gets spent lies at the heart of today's loud criticism of the Reagan administration's hazardous waste cleanup.

Mr. Miller, I was wrong. What puzzles me, though, is why the FTC has not matched its aggressiveness in regulating the professions with some aggressiveness in regulating unfair trade in several areas where the commission has backed off. What's the difference?

Autopsies

"Industrial America's Suicide Pact" [Phil Keisling, December] was a most interesting article. However, I suspect that statistics quoted about the relatively "high" average earnings of workers in auto, rubber, and steel don't tell the entire story.

I can understand the union's refusal to take a 50 percent cut in wages and benefits in the Ford auto parts plant that closed. As for the other option, that of buying the plant, it had been losing money since 1974, so that doesn't strike me as a viable choice.

The fact is that management's short-sighted policy and grossly inflated incomes at the *executive* level got industries such as auto, rubber, and steel in a bind. And the only way out that they see is to put the burden of re-establishing themselves on the backs of the workers.

Were any concessions offered by management that let labor participate fully in all managerial decisions? Or that managerial inflated incomes and perquisites and prerogatives could be sacrificed?

I think your article was slanted to show equal culpability on the part of management and labor and I think primary responsibility rests with the former.

BERNARD BRODSKY
Brooklyn, New York

Sorry, but (with reference to "Industrial America's Suicide Pact") it's elementary economics time again.

To say that some plant struggling along just-in-the-black could be made more profitable with massive investments (that would not earn a market return), or could continue to struggle along indefinitely under worker ownership (plus taxpayers' subsidies, which you oppose everywhere else), is to take a myopic view of industry-wide economics. If an industry as a whole suffers from massive overcapacity and international uncompetitiveness, some plants somewhere have got to be shut so that new investment can be concentrated on those where it can do the most good.

The same thing is true on a world-wide scale: in Britain and France and all over Europe, just as at Youngstown, workers have protested the diabolical closing of *their* plants by wicked capitalists lusting after profits and indifferent to human suffering—yet globally all would admit that some plants somewhere have to be shut, as long as it isn't our boys.

Keeping open plants that offer only a minuscule rate of return (and with long-term inflation at 8 percent and interest rates at 10-12 percent, 12 percent is in effect a zero rate of return) wastes precious capital and reduces the overall competitiveness *and thus the overall number of jobs* of the whole industry. Keeping open Youngstown's steel plants would have wasted resources needed to make the industry's more modern plants competitive, and thus in the long run would have cost more jobs elsewhere. Return of capital, for a union pension fund or any other financial institution, is not a measure of "greed," but of maximizing the productivity, in terms of profit, output and jobs, of scarce capital resources.

It is sentimental nonsense to complain that "a way of life" is disappearing in these towns because hard-hearted capitalists won't bail them out. The world in which men with no education, training or skills could earn $20 to $30 an hour in pay and benefits is disappearing because of worldwide economic developments which have indeed made the post-World War II era an aberration—a period of negligible foreign competition for U.S. industry. If closing a small-town steel plant means that Joe and Jane Blow have to leave their town to take up new jobs 200 miles away as a photocopier repair man and a computer assembler, that will indeed cause a lot of hardship, but it is neither a human tragedy nor a national disaster. It is what a flexible, responsive, high-growth economy is all about.

MICHAEL BRODY
New York, New York

The editors reply:

Our central point was that, while on the whole we believe capitalism is the best economic system, one of its gravest defects, ranking with its indifference to workers' and the public's health and safety, is the pressure it exerts on managers to maximize profits. This in turn encourages them to close perfectly healthy plants—not the cripples, but the ones that aren't losing money and are providing badly needed employment simply because they're making, say, a 3 percent instead of a 12 percent profit.

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I was interested in Phil Keisling's article on "Industrial America's Suicide Pact." He addresses a problem that is painfully apparent to those of us in the "smokestack" industries. While many of his suggested cures have merit, I am afraid he wanders off course in his closing remarks on marginally profitable firms. Businesses that earn only a small rate of return are a problem to their owners whether those owners are public shareholders or the employees themselves. You can't borrow money or withdraw it from savings accounts earning, say, 10 percent to invest it in businesses earning 5 percent without eventually getting into trouble.

The villain in the piece is not portfolio management but rather is decades of fiscal mismanagement by our federal government. The high-inflation, stop-and-go economic policies pursued by administrations and Congresses of both parties have virtually destroyed our capital markets. Obviously the capital-intensive industries are those most seriously affected.

If we can only get a few years of a reasonably stable, non-inflationary environment we can generate the savings and investment needed to put industrial America back on its feet. Employee ownership of such facilities is not necessarily a bad idea but without long-term capital, that idea alone cannot save our factories.

H.M. NELSON
Oakland, California

H. M. Nelson is a vice president of Kaiser Aluminum & Chemical Corporation.

Got the Joke

It was tucked away back there on page 54 of a 60-page December issue (one of the finest you have ever given us) and the title, "Finally, a GOP Jobs Program," fooled me—momentarily.

Then I read that priceless prose by Art Levine and delighted in every word of it. There are only two more words that I can offer in its praise.

The first is "Devastating."

The second, "Beautiful!"

DENNIS J. PERKINS
Georgetown, Maryland

Racqueteering

I wasn't going to bother writing you that your December cover headline, ". . . Hari-Kari," is incorrectly spelled; the correct spelling (and associated pronunciation) being Hara Kiri. However, when I found you'd spelled tennis "rackets" (page 10) when the correct spelling is racquets, I felt I had to write.

Phew! Now that that's over I can go back to enjoying your book.

OLIVER BERLINER
Los Angeles, California

The editors reply:

We agree with you about "hara-kiri," but not about "racket."

The Washington Monthly

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TILTING AT WINDMILLS

As we were doing the research for the health articles in this issue, we came across a UPI story that began: "The National Association of Social Workers charged today that new regulations would reduce the quality of hospital care." Surely, we thought, these dedicated professionals would direct us to the truly critical issues. Were patients to be denied medicine or surgery? No, not exactly. What outraged the social workers was a provision that eliminated a requirement that social work services be provided in general hospitals. . . . Nowhere is the biblical admonition to "judge not lest ye be judged" more devotedly honored than in the civil service. And nowhere have I seen better testimony to that devotion than in an item from a recent AID memo on career development and training: "Should not be too hard on trainees who fail courses. It may affect their careers." . . .

Regular readers know how impressed we have been by the bar's dedication to continuing legal education. The latest example was the West Virginia University College of Law's conference held the morning of the Gator Bowl game, in which the Mountaineers were one of the contestants. At least the announcement of the conference listed a subject, "Update on Taxation." The Institute of Legal Studies did not waste time on such irrelevance in its ad in *California Lawyer* headlined "Legal Seminar in Sun Valley." The copy tells of "Complete Packages Available Including 7 Nights Lodging, 6 Days Lift Tickets, Air Transportation, Seminar Registration," but there is nary a word about whether participants will be pondering contracts, torts, or trusts and estates. . . .

One of the less cheerful aspects of modern society is our easy tolerance of the term-paper industry, whose advertisements appear regularly in college newspapers. Research Assistance offers "11,276 papers on all academic subjects." Trident Marketing does even better, with more than 15,000 term papers on file and custom-made papers on 14 days' notice. Trident also offers the comfort of "complete and absolute confidentiality—we ship in plain brown envelopes," and in bold type provides the ultimate reassurance: "Trident Marketing unconditionally guarantees an 'A' (plus or minus) on any term paper provided by us or money is fully refunded." The ad concludes with the slogan,

"TRIDENT MARKETING—THAT EXTRA EDGE TO WIN IN THE 80s."

Of course, the edge just happens to be cheating. And that is what all those lawyers are doing when they use two or three hours in a seminar as justification for deducting the entire cost of a vacation from their taxes, which of course means they are in effect sticking the rest of us with the bill for that trip to the Gator Bowl or that week in Sun Valley. . . .

A similar moral tone in another line of endeavor comes from a recent *Business Week* article on consulting that suggested consultants could expect to earn from $150

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to $200 per day. A reader wrote saying that didn't sound so great to him. The editors replied, "True, but a consultant's rule of thumb is never to charge for less than a half-day, even though only an hour or two is spent working for a client—making it easily possible to get two days' pay for one day's work." . . .

Most Americans, including me, can still get upset about Nazi war criminals at large. One wonders then why practically nothing has been written about the Japanese who were guilty of the germ tests conducted during World War II at Pingfang, China. Thousands of people, mostly Chinese, were killed by experiments in which, according to Michael Parks of *The Los Angeles Times*, "Men were tied to stakes and cannisters of bubonic plague, gangrene, and anthrax bacteria were exploded nearby. Soldiers in gas masks and protective clothing used stopwatches to measure how long it took them to die."

Every Saturday afternoon from 1939 to the end of the war, groups of prisoners were brought to Pingfang by train. None left alive. At the end of the war, the Japanese gassed the 400 prisoners on hand and burned their bodies. They didn't do the same to the laboratory animals, who were released, causing, among other things, an epidemic of bubonic plague in the surrounding area.

The officers responsible were given immunity from prosecution as war criminals in return for records of their research, which the American government wanted to keep from the Russians. Today the deputy commander of the unit lives in Tokyo, according to Parks, a "revered" former president and chairman of Green Cross, a Japanese pharmaceutical firm. His successor at Green Cross is another officer from Pingfang. Still another officer, the head of the "frostbite team," is a medical professor honored last year by the Japanese Physiological Society for his research. The head of the "vivisection team" is said to be teaching at another Japanese university.

What, you may ask, were the frostbite and vivisection teams? Parks explains: "Women were infected with syphilis, impregnated, and after giving birth were vivisected along with their children to assess the effects of the disease. Naked men, usually doused with ice water, were kept out of doors in 40-below weather to learn more about frostbite. The blood was drained from human subjects and replaced with the blood of horses or monkeys. The subjects were sometimes cut open while alive to determine how the artificial blood was being absorbed." . . .

We keep telling you that the reason Washington doesn't care about the recession is that Washington itself isn't hurting. The latest evidence comes from a survey, reported by *The Wall Street Journal*, of metropolitan areas with the most families earning more than $50,000 a year. Leading the list, of course, is Washington, not by just a little bit but with 30 percent more such families than the nearest competing area. . . .

While California has a well-earned reputation as a birthplace of fruity ideas, sometimes one finds real gold among the hula hoops. Two solid ideas, both related to testing people for jobs, have recently been put into effect there. One is a requirement that new teachers be tested in reading, writing, and mathematics and that the results of how many teachers from which colleges and universities passed and failed be made public. If the test is sound, it should at last provide a way for blowing the whistle on the second-rate teacher training institutions that have been increasingly undermining the quality of American public education.

Another sensible development in testing is taking place with the California bar exam, which, in addition to the usual multiple-choice and essay questions, will contain a section that tests the aspiring attorney's ability to do things lawyers actually do in their work: advise a client on the legal issues of a case and analyze the strengths and weaknesses of a brief. This is at least a beginning of the kind of performance testing that this magazine advocates in all fields. . . .

Many job tests today have absolutely no relation to the applicant's ability to do the work at hand. The latest example to come to light was a written New York City civil service test for park laborers who do such things as pick up trash and cut grass. How could any written test measure the ability to do such work? New York's certainly did not. "If the permanent jobs had been filled on the basis of the test scores," reports *The New York Times*, "800 of the current

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1,000 parks service workers would have had to be dismissed." At least the city had the good sense to throw the test out. But it remains a tribute to the civil service mania that seeks to endow every government job, from gardener to ambassador, with civil service status, including all the appearances but rarely the reality of selection on merit. . . .

So many of the anecdotes told by Ronald Reagan have that *Reader's Digest* flavor—just a little too pat to be true—that it was not surprising to learn from the White House press office that a *Digest* article was the basis for the president's claim that the nuclear freeze movement is guided by Moscow. The primary source for the *Digest* article appears to have been John Herbert Rees, a.k.a. John O'Connor a.k.a. the Rev. John Seeley, a man characterized by an investigating committee of the New York State Assembly as living in "fantasy."

The assembly got onto Rees in the course of an investigation into why New York police were maintaining thousands of files on people who were neither charged with or suspected of crime. A major source of the information in these files was a newsletter, *Information Digest*, published by Rees. According to Jeff Nesmith and Ann Woolner of the Cox Newspapers, the committee concluded that the contents of *Information Digest* were prepared by "mysterious characters apparently unworthy of the respect and attention paid to them by law enforcement authorities." Now you know where Reagan gets those stories. . . .

When General David C. Jones retired last June as chairman of the Joint Chiefs of Staff, he had served the Joint Chiefs in one capacity or another longer than anyone in history. In November, he wrote an article for *The New York Times Magazine* that told what he had learned from that experience. It would be hard to overstate the importance of this article, for it confirms so much of the worst that outsiders had suspected, and does so with the understanding that only an insider can provide. Here—and I quote at considerably greater length than usual, because the article has received so little attention—is some of what he said:

"By their very nature, large organizations have a built-in resistance to change. As the largest organization in the free world, our defense establishment—the Department of Defense—has most of the problems of a large corporation but lacks an easily calculated 'bottom line' to force needed change. At the core are the Army, Navy, Air Force, and Marine Corps: institutions that find it difficult to adapt to changing conditions because of understandable attachments to the past. The very foundation of each service rests on imbuing its members with pride in mission, its doctrine and its customs and discipline—all of which are steeped in traditions. While these deep-seated service distinctions are important in fostering a fighting spirit, cultivating them engenders tendencies to look inward and to insulate the institutions against outside challenges.

"But the armed services are only part of the problem. The Defense Department has evolved into a grouping of large, rigid bureaucracies—services, agencies, staffs, boards, and committees—which embrace the past and adapt new technology to fit traditional missions and methods. The result of this rigidity has been an ever-widening gap between the need to adapt to changing conditions and our ability to do so.

"The emergence of the airplane as a major military asset during World War I should have alerted us to the need to adjust our doctrines and our organizations to changing realities. The continued development of air power could not help but blur the traditional distinction between land and naval warfare, but the nation reacted to this phenomenon in a traditionally bureaucratic manner: Each service developed its own air power (today there are *four* air-power entities), and protected it with artificial barriers to obscure the costly duplications.

"On the surface, our system *appears* to provide an orderly approach. The process starts with a document [called "defense guidance"] prepared by the office of the under secretary for policy, based on administration policy and on inputs from field commanders, the services, the Joint Chiefs, the secretary's staff, and other relevant sources.

"But this process begins to break down at the very beginning because the military strategy contained in the defense guidance always demands greater force capabilities than the budget constraints will allow.

"Current guidance is so demanding that developing

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truly coherent programs to carry it out is impossible even under the most optimistic budget assumptions. The guidance places high priority on the long-term survivability of our strategic forces if a nuclear war should occur.

"These nuclear requirements are large indeed, but they pale in comparison with conventional force requirements—expenditures for conventional forces are about three times those for nuclear forces. Substantial improvements in European and Pacific operations are planned and the ability to project power, especially in Southwest Asia, is to be expanded.

"There is simply not enough money in the projected defense budgets to do all this, but the defense guidance does little to set meaningful priorities or mandate a search for new directions to maintain our security. This is not a problem unique to this administration.

"Since requirements exceed resources, the military services invariably allocate resources among their traditional missions, and seek ways to justify a greater share of the budget. But additional funds are likely to come only from another service's share, so each attempts to outgame the others without sufficient regard to cross-service programs.

"The Joint Chiefs of Staff and the Joint Staff are assigned a role in this process, but each service usually wants the Joint Staff merely to echo its views. Since four of the five members of the Joint Chiefs of Staff are also service chiefs, a negotiated amalgam of service views almost invariably prevails when inputs are finally proposed by the Joint Staff.

"The result of this tedious process is a defense budget that is derived primarily from the disparate desires of the individual services rather than from a well-integrated plan based on a serious examination of alternatives by the civilian and military leadership working together. Inevitably, a secretary of defense either supports a total program that is roughly the sum of the service inputs (limited by fiscal guidance) or resorts to forcing changes, knowing that advocates of disapproved programs will continue the opposition into the congressional hearings.

"To sum up, our defense establishment suffers serious deficiencies, including the following:

—Strategy is so all-encompassing as to mean all things to all men.

—Leaders are inevitably captives of the urgent, and long-range planning is too often neglected.

—Authority and responsibility are badly diffused.

—Rigorous examination of requirements and alternatives is not made.

—Discipline is lacking in the budget process.

—Tough decisions are avoided.

—Accountability for decisions or performance is woefully inadequate.

—Leadership, often inexperienced, is forced to spend too much time on refereeing an intramural scramble for resources.

—A serious conflict of interest faces our senior military leaders.

—The combat effectiveness of the fighting—the end product—does not receive enough attention.". . .

In times gone by being a member of a school board was looked on as a way to do something for your community—a part-time job with minimal or no compensation at all. But as the idea of public service has yielded to the notion that "in government you get what you pay for," salaries have steadily and sometimes radically risen. The fallaciousness of this logic is apparent everywhere. Take District of Columbia school board members, who in the 1960s got $1,200 a year. They now receive $21,740, and anyone who knows anything about the District's schools knows that they are not nearly as good as they were in the sixties. . . .

A great step backward in the history of American labor took place recently and Donald Woutat of *The Los Angeles Times* captured it much better than most of his fellow journalists:

"DETROIT—About 50,000 Chrysler workers are expected today to approve a new labor agreement that more closely resembles a wage settlement of the 1970s than one forged in the supposed new age of cooperation between labor and management which began when Chrysler was on the verge of collapse.

"Although the United Auto Workers union has sought to downplay the fact, the tentative agreement abandons a gain that took the union 23 years to win—a share of company profits for workers—in return for an immediate wage increase.

"Critics at Chrysler and the UAW say it could prove to be a short-sighted step that, combined with the union's expected loss of a seat on Chrysler's board of directors next spring, will turn back the clock to a time when workers

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were on the outside looking in. And it could cut the workers out of some fat profits in coming years."

" 'It's a couple of steps backwards,' a former Chrysler executive says. 'They're saying, "To hell with idealism. I want mine, Jack." ' ". . .

Here are the latest setbacks in our war against snobbery:

The New Yorker is advertising "a Kovacs clock for Mensa members only." The copy continues, "If you don't have Einstein's IQ, this clock will make people think you do . . . this may be the world's most difficult-to-read clock." It's all yours for $46 plus $3.50 for postage . . . . And this from Newport Beach, California, where a lot of wealthy people live, very wealthy people: When someone proposed to build a condominium project offering housing to people with incomes from $21,000 to $43,000, a resident protestor was quoted by a local newspaper as saying, "Do we really want this kind of element here? People already get upset here when they can't join our yacht clubs.". . .

In last November's *Harper's* I told a story that I should have written earlier in this magazine. It was that James Fallows, while serving as Jimmy Carter's speechwriter, offered to give up that job to serve as a roving eyes and ears for the president in cases where common sense suggested that the White House was getting somewhat less than the whole truth from the various parts of the government bureaucracy.

Leaders tend to be wrapped in cocoons by their subordinates when they should follow the example of Caliph Harcun al Rashid, who, readers of *The Arabian Nights* will recall, ignored the reports of viziers and eunuchs and all other official bringers of news and flattery and sat in the marketplace disguised as a beggar to learn what was really going on. American presidents, with their retinue of secret service agents, can't sit in the marketplace, but they can and should send others to do it for them.

I gave one example of disaster Carter could have prevented by using a reporter like Fallows in this role. It was Desert One, the failed attempt to rescue the hostages in Iran. If Carter had read the history of the Bay of Pigs, he would have been aware of the tendency of subordinates to paint an optimistic picture of the prospects for success of such enterprises both to their boss and, equally dangerously, to themselves.

Newsweek reporters learned what the president's man could have found when they dug into the story last summer. Among many other signs pointing to trouble was the news that the helicopter pilots screwed up the mission's dress rehearsal and the fact that the road running beside the Desert One site was used by Iranians much more often than Carter had been told. But Carter didn't learn these facts because he never developed independent sources of information outside the chain of command. Future presidents should profit from his mistake.

To some extent, a relentlessly curious president like FDR can perform the eyes and ears function himself by constantly cross-examining his subordinates about their own—and often more revealingly, their rivals'—activities and plans. But even FDR needed people like his wife and her friend, Lorena Hickok, a skilled journalist, to go out into the marketplace for him. He needed them because the average White House staff member prefers the comfort of his White House office and limousine, that sense of warm importance of driving through the White House gate while awed tourists look on, to spending days talking with troops at Fort Bragg, with coal miners in West Virginia, or with farmers in Nebraska.

The average White House staff member also has a profound distaste—shared by other subordinates in the bureaucratic chain-of-command—for bringing bad news to the boss. This is why it is important that those selected for the eyes-and-ears role be people who have no career interest in the government and thus no need to gild lilies or otherwise distort the truth. . . .

One of my favorite *Washington Monthly* covers, the one with Brezhnev smilingly displaying his American Express card and saying in Russian, "I wouldn't leave home without it," was designed to illustrate an article about how much credit American banks had extended to Eastern Europe. Since then, that story has become widely known, as has the story of American banks' overextension of credit to Third World countries. What isn't so well known is that some perfectly respectable Western European countries are also in deep fiscal trouble.

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Denmark, a recent addition to Standard & Poor's "Credit Watch" list, is but one example. . . .

I talked to a friend who had been on the National Security Council in the early Nixon years about John Dean's case for Alexander Haig as Deep Throat. My friend didn't buy it. He said that even though Haig was a notorious gossip, the NSC and the Pentagon, where Haig was working throughout the time Woodward and Bernstein were scooping the world, were just too isolated from the Haldeman-Ehrlichman-Colson orbit for Haig to have any more than guesses as to what the rascals were up to.

Another friend, Robert Eringer, has written from London with another nomination. It is David Young, who now lives in England and operates what is called there a "furnishing business." Young's Oxford-based company (Oxford Analytica) furnishes advice to corporations, including American Express and Rockwell International.

Young was one of Nixon's four "plumbers." The other three were Howard Hunt, G. Gordon Liddy, and Egil Krogh. In fact it was Young who was assigned the task of creating the "plumbers," on Nixon's direct instructions. In addition to his plumbing duties fixing White House news leaks, Young was an aide to John Ehrlichman and worked on the staff of the National Security Council as well. In short, he was in an ideal position from his basement White House office to know practically everything that went on.

But unlike Hunt, Liddy, and Krogh, who all ended up in jail, David Young walked away from Watergate unscathed and virtually unknown. He had quietly cooperated with the prosecutor's office. Woodward and Bernstein neglected to give Young more than a few fleeting mentions in *All the President's Men*. . . .

A lot of people, including 35 U.S. senators, are upset that Iraq has been dropped from the State Department's list of countries known to harbor terrorists. One of the residents of Baghdad is Abu Nidal. It can't be that State doesn't know who he is, for he is most definitely not the modest sort of fellow who conceals his accomplishments from the world. He has, for example, claimed credit for the attack on Goldenberg's restaurant in Paris, an attack that killed several Americans and injured many others. . . .

A lot of our California readers reacted to last month's item on Carl Albert's pension with the news that last year, under their own state's pension system, Pat Brown was earning more in retirement than his son Jerry was being paid for being governor. . . .

The case books of American law are full of judicial pronouncements about "legislative intent" based on "the legislative record"—pronouncements that reveal nothing so much as the judges' ignorance of legislative reality. Senator William Armstrong recently explained:

"As the lame-duck session careens to its conclusion, I cannot help drawing the attention of anyone who may read the record of this proceeding to the fact that, as we have rushed past many, many pieces of legislation, we have also considered numerous committee reports and numerous statements of floor managers.

"For the most part, these are not valid expressions of the intent of Congress; by and large, they are not written by members of the Senate; they are generally written by some anonymous person who is a member of the staff of the committee in the Senate or the House. During the last several days, we have considered literally hundreds of pieces of legislation, many of which have had lengthy statements of this type appended to them, statements never considered by the Senate and they are not subject to amendment by the Senate.". . .

There was a delicious story by Selwyn Raab buried in the back of a recent *New York Times*. It began: "Representative Mario Biaggi and three state legislators have urged a federal judge to suspend a five-year prison sentence for a convicted racketeer and permit him to work as a volunteer youth counselor." Who is this man who would lead our youth to a brighter tomorrow, trudging through the woods, sitting around campfires in uplifting fellowship? Why it's Vincent Di Napoli, who just happened to have been convicted of, among other things, labor racketeering and fixing horse races. He has also been listed as a suspected distributor of narcotics by the Federal Drug Enforcement Administration. His brother, Joseph, perhaps the beneficiary of Mr. Di Napoli's counseling, has graduated from the suspect list to a conviction on charges of narcotics trafficking and a 20-year prison sentence. . . .

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According to *The Washington Post*'s William Branigan, communist Vietnam's army journal recently carried an article strongly attacking "enemies" in South Vietnam. The article identified the enemies as 468,000 members of the former South Vietnamese army, 72,000 former Saigon officials, 450,000 former members of noncommunist political parties, 400,000 Catholics, 480,000 Chinese, and 60,000 Buddhist monks. This list, which of course does not include hundreds of thousands of Vietnamese who fled communist rule by boat, does begin to suggest that we weren't fighting for nothing in Vietnam. There were lots of people who did not then and do not now want to live under a communist government.

I think we were right to try to help these people with military aid and with volunteers like the Green Berets. Where we went wrong was when, under Johnson and Westmoreland, (1) we stopped using volunteers and began sending conscripts, choosing them from the least powerful and least able to resist segment of our society, and (2) when we began killing, with our search-and-destroy missions and our bombing, more Vietnamese civilians than Viet Cong or North Vietnamese troops. It is interesting that, as these practices ceased under General Creighton Abrams and we returned to an anti-guerrilla strategy, the strength of the Viet Cong declined. The tragedy is that, as the anti-guerrilla approach was finally working in the early seventies—even the North Vietnamese concede that the Viet Cong was not a factor in their final victory—Congress yanked the aid rug out from under South Vietnam, which gave the North the ability to finally take over completely. What Congress was doing was overreacting to its cowardice in not having opposed the mistaken 1965 escalation and the criminally immoral draft that made it possible. . . .

There is one other lesson from Vietnam that I hope none of us will ever forget. It came when Nixon mined Haiphong harbor—in complete disregard of the dire warnings of all us liberals. The mining worked, and the North Vietnamese quickly began to behave reasonably at the conference table. And it worked, unlike the bombers, without killing anyone, without shedding a drop of anyone's blood. It worked for the same reason that Kennedy's blockade of Cuba had worked to end the missile crisis. The trick is to give the other guy the option to shoot first. By not shooting first and outraging him with the maimed bodies of his countrymen, you say to him he will have to be the one to make the choice to maim those bodies. No one will be hurt if he doesn't sail into those mines or through that blockade. So let's be reasonable and talk things over.

I was reminded of one more crucial lesson from Vietnam by an article Colonel Gains B. Hawkins wrote in a November issue of *The Washington Post* explaining why Hawkins and others had lied about the number of Viet Cong during the McNamara era. McNamara's obsession with quantifying everything meant that everyone in the field was under pressure to produce numbers that would satisfy him that progress was being made: a steadily rising body count—which meant shooting a lot of water buffalo and, tragically, a lot of civilians—accompanied by a steadily declining number of Viet Cong. What McNamara didn't know was that if you use numerical goals to inspire the troops you have to guard against the unhappy things the troops might do to achieve them. You need a Jim Fallows out there in the field talking to the Gains Hawkinses in Saigon bars and asking just what is the joker in these reports. The problem with most leaders, as we have noted, is that they not only don't reach out to Gains Hawkins, they don't want him to tell the truth to anyone. Thus their hatred of the leaker.

Some other recent examples: When Michael Hagstad, as chief of the budget analysis office of the District of Columbia's corrections department, said that Mayor Marion Barry had given a wrong fact to the press, Hagstad was fired even though he appears to have been correct. When it was revealed that the Prince George's County, Maryland, detention center had failed to protect prisoners from homosexual rape, the only investigation it conducted, according to one source, "was to find out who was leaking stuff to the papers."

Then there's the example of Baldwin Associates, a prime electrical contractor for the Clinton Nuclear Power Station, which fired two of its safety inspectors for "giving too much information to Nuclear Regulatory Commission inspectors." Not false information—just too much information. Even the NRC couldn't stomach this outrage, so it fined the company $40,000 and got the two employees reinstated. . . .

—*Charles Peters*

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MEMO OF THE MONTH

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS BALLISTIC MISSILE OFFICE (AFSC)
NORTON AIR FORCE BASE CA 92409

DEC 5 1982

REPLY TO ATTN OF: DS

SUBJECT: Peacekeeper

All Directors, TRW, BMO Tenants

1. The President has announced the new name—Peacekeeper—as the replacement for M-X. Effective immediately, the name "Peacekeeper" will be used exclusively in place of M-X.

2. The Ballistic Missile Office must take the necessary initiatives to make an immediate transition to the new name for all elements of the former M-X weapon system. Such mundane items as job titles must not be excluded in the transition process.

3. Subsequent to 15 December 1982 all correspondence, including DERs and APRs which reference M-X, will be returned to originators for reaccomplishment. Us "Peacekeeper" in all your conversations and correspondence. Please repeat the instructions contained in this letter as frequently as necessary to alert all personnel of the importance attached to the name change.

LAWRENCE B. MOLNAR
Colonel, USAF
Chief of Staff

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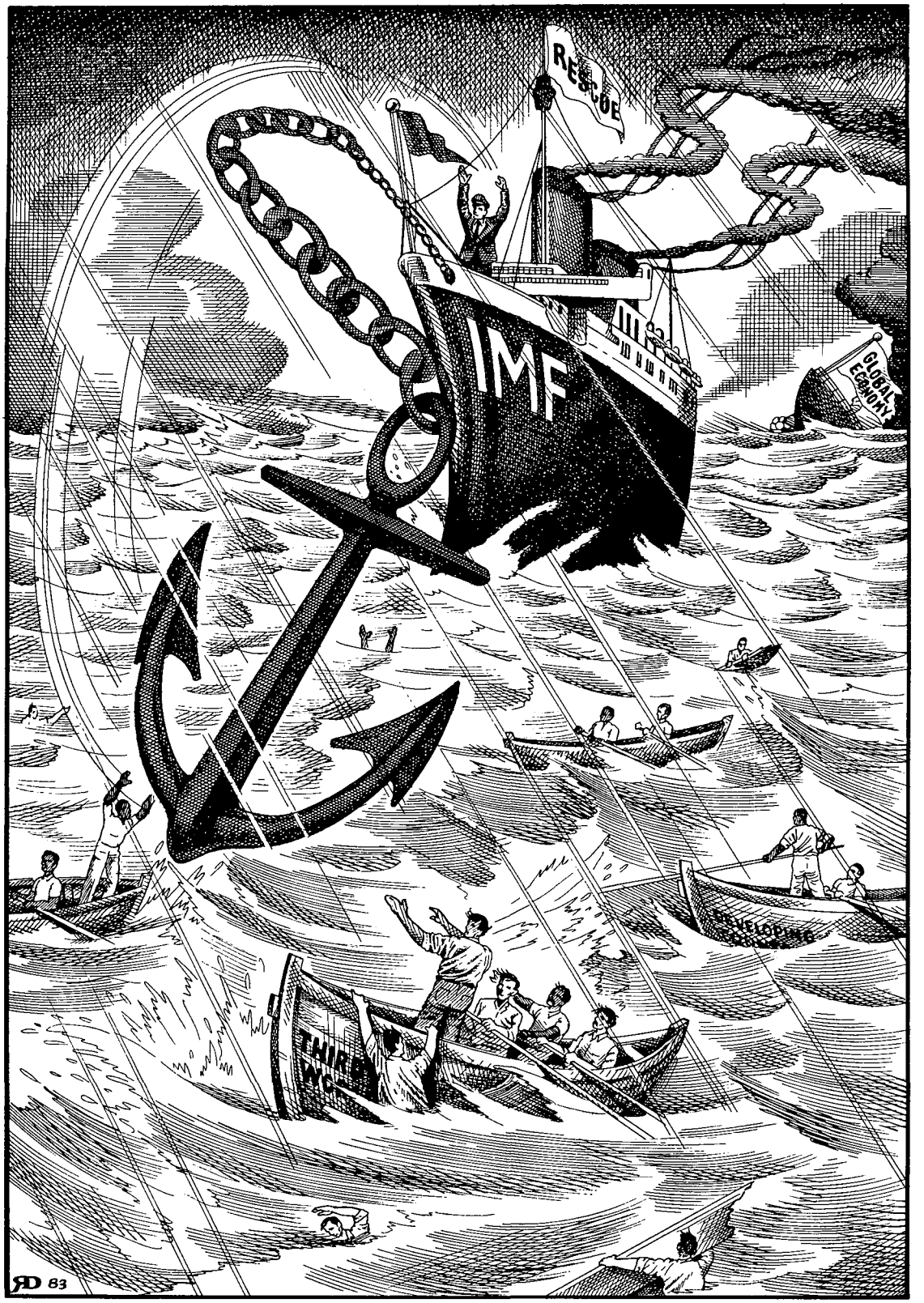

Illustration by Ray Driver

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How The IMF Makes The World Safe For Depression

By John Eisendrath

Tune in for a moment to yet another of those events designed for insomniacs. This one is a conference sponsored by the "Global Interdependence Center," and the speaker is Jacques DeLarosiere, managing director of the International Monetary Fund.

"Monetary restraint must continue to form a central element of national economic policy to combat inflation," DeLarosiere tells the nodding heads. "The hard-won progress already achieved in this direction needs to be consolidated."

Monetary restraint? Combat inflation? The IMF chief is speaking, not in 1979, but in November of 1982. Inflation is below 5 percent. Unemployment is above 10 percent in the U.S.—a 40-year high for this country but still lower than elsewhere. George Shultz is urging expansionary policies, as are the leaders of other major lending nations. Even Paul Volcker, the Federal Reserve chairman whose vise-like inflation-fighting effort helped choke the world economy, has reversed Fed policy with an eye to growth. Monetarism is dead.

But here is DeLarosiere saying that as far as the IMF is concerned, the tighter the better. No matter that many nations lie flat on their backs, gasping for breath. The IMF, the primary instrument for global economic stabilization, still apparently believes that worldwide inflation is a more serious threat than economic collapse. It has begun to lend heavily to help nations pay back what they owe banks—and to (thankfully) push these banks to extend their loans so as to avoid

John Eisendrath is a New York writer.

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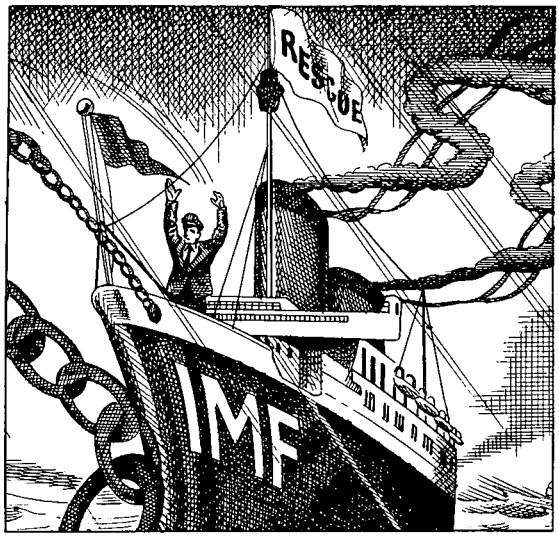

default. But until now, the fund has not encouraged consumption and expansion—the ingredients needed to bring the world economy back to life. The question is whether DeLarosiere and other IMF leaders will follow the desires of the lending nations and push for expansion.

Astonishingly enough, the terms of IMF loans still call for austerity and dampened growth. Thailand, Honduras, South Africa, Hungary—these and a dozen other nations of all political persuasions received IMF loans in the last two months of 1982, and in each case the strings attached by the fund were essentially the same: "Reduce domestic demand," "Slow down credit," "Control the growth of spending." Peculiar advice indeed to avoid a worldwide depression.

Has anyone in the American press taken note of the IMF's remarkable position? Hardly. Except for Clyde Farnsworth of *The New York Times* and a tiny handful of other highly cautious financial reporters, the Washington press corps wouldn't know the difference between DeLarosiere and a French pastry. When I went to visit the press office at the IMF's Washington headquarters, the man responsible for answering my questions was reading a Harlequin novel entitled *Lovely Ladies*. It was clear his amorous concentration was rarely disturbed.

Congress doesn't know much about the IMF either, although it authorizes much more money for the fund than does any other member government. In fact, American taxpayers pick up one-fifth of the IMF's total bill, and that share may soon go up by 50 percent.

Consider that 83 percent of U.S. and multilateral aid now reaching the Third World does so without the benefit of prior congressional review. When emissaries from the IMF do go up on Capitol Hill, they're treated differently than other officials. "It was not a discussion," says one congressional aide who attended a briefing on IMF aid to South Africa by the U.S. representative to the fund, Richard Erb. "He simply got up and lectured. We were left with a very hollow feeling of a slap with the back of the hand."

"I'd have to be candid and say I'm somewhat daunted by the prospective task of examining the IMF closely," says Ben Crain, who as staff director of the only House subcommittee with direct jurisdiction over IMF activities should be least daunted. "Almost no one grasps the full details of it."

And the IMF likes it that way. At a hearing in August to discuss a controversial IMF loan to El Salvador, Rep. Mike Lowry asked whether a government in the midst of a civil war might not use the money to buy arms. Erb said simply, "The money is obviously fungible." Rep. Stephen Neal, chairman of the House banking subcommittee on international development institutions and finance, has essentially thrown in the towel: "From the past hearings we have held on the IMF it has become clear that a realistic, well-founded assessment of adjustment programs would be impossible." So much for oversight.

Why has the American public never developed much interest—not to mention skepticism—about so important an institution as the IMF? The most compelling reason is also the most obvious: the U.S. has never had to chafe under an austerity program imposed on it by the IMF. (Can you imagine the reaction if some obscure French financier told the American government it *must* balance its budget—or else?) It's always easy to support the role of the great disciplinarian forcing economic accountability when it's some *other* profligate country that the IMF is sending through the wringer. Meanwhile, the side effects of that role—particularly during a worldwide recession—often never get noticed at all.

World Poker Game

What all this monumental lack of knowledge proves is the strength of a good idea—even if the idea is no longer good. The idea in this case was to let the bankers rebuild the world when it needed rebuilding: at the end of World War II. When the economies of the world lay prostrate it was to the bankers that everyone turned. The bankers re-

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sponded by creating the IMF and the World Bank.

The real origin of the IMF lies in the beggar-thy-neighbor policies of the Depression. During the 1930s, countries tried to protect domestic income in the face of shrinking markets by imposing tariffs, quotas, and currency devaluations. Predictably, these policies led to lower trade and employment, worsening the global economic decline. World leaders then resolved to create an international code of conduct that would enforce a more open trading and banking system. This code was established in July 1944 at the United Nations Monetary and Financial Conference at Bretton Woods, New Hampshire, where the IMF was set up to serve as policeman of the new economic order.

The IMF gets its money in the form of contributions from each of its 146 member countries. These contributions, known as quotas, currently amount to $60 billion. The size of a nation's quota is determined on the basis of perceived economic and political importance. The quota determines the size of a country's vote in the IMF. In effect, the fund is a rich man's United Nations. The United States has contributed more than $12 billion to the fund, three times more than any other member, and controls 19 percent of the vote. To put this in perspective: the 43 African member states have a combined vote of only 8 percent.

The Bretton Woods system was based on fixed exchange rates. Each member undertook to set a value on its currency in terms of gold. Because of the dollar's overwhelming strength at the end of World War II, it came to play a principal role in the system. It was the only world currency convertible into gold.

Eventually, this special status had to end. As U.S. gold reserves fell and foreign dollar holdings rose, confidence in the United States' ability to honor its obligation to convert dollars into gold waned. The result was a rash of speculative capital flows out of the United States as investors anticipated the inevitable: the suspension of the convertibility of the dollar. This occurred on August 15, 1971, when Richard Nixon and John Connally took the U.S. off the gold standard. The breakdown of the Bretton Woods system raised serious questions about the future of the IMF. "Ten years ago people wondered if the IMF role had ceased entirely when fixed exchange rates ceased," says Jeffrey Sachs, an economist at Harvard.

Not surprisingly, when the IMF's $100,000-a-year bureaucrats put their minds to it, they found a way to keep their jobs. First they built a luxurious headquarters in Washington complete with waterfalls and a 13-story black-marble atrium. Then they carved out new responsibilities for themselves. With the United States no longer printing money to grease the wheels of the global economy, the problem of world liquidity had became more acute. The fund, which had played an insignificant role in this respect in the 1950s and 1960s, moved in to fill the void. While the monetary policy of the Federal Reserve continues to have the greatest effect on world liquidity, the fund has become an important money manager as well. "The job is enormously complicated," says Sachs. "There is no other institution that has to play doctor to the world."

Under IMF-enforced austerity, unstable Third World leaders might be inclined simply to default—which is what the IMF was supposed to prevent in the first place.

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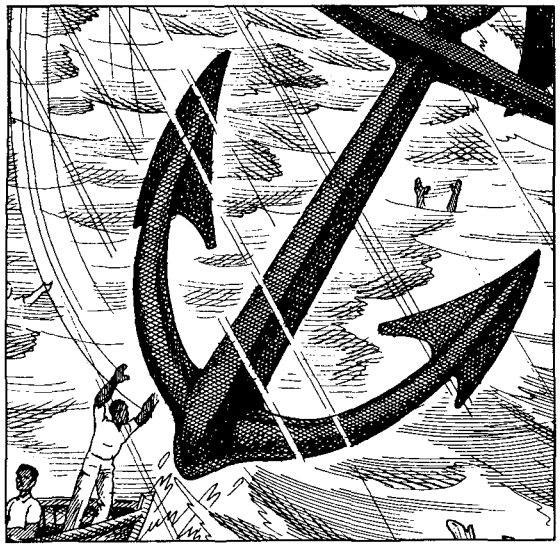

Just how sick is the patient? This sick: Western bank loans to less-developed countries and to Eastern Europe have gone from $100 billion in 1973 to more than $500 billion. To put the current situation in perspective: The aggregate capital of the 100 largest banking companies outside the United States together with the combined capital of the ten largest U.S. banks is only $138 billion.

If you lose your capital you must close your doors as a bank. One country alone—Mexico—owes more than 70 percent of the common equity of the Bank of America and Manufacturers Hanover (the first and fourth largest banks in America). If Mexico defaults, both banks could be in big trouble. Mexico barely avoided default last fall.

That's where the banks stand. What does this do to the countries themselves? When a crunch comes, the first place banks cut back is world credit. According to *Business Week*, the crunch has already arrived. The magazine estimates that by next year no more than 100 banks—down from 1,100 today—will be actively participating in large loans to foreign countries. Bank lending, out of control only a couple of years ago, is now almost dead.

Such a drastic reduction indicates that bankers, like elephants, move in herds. As long as a country looks good in the short term, bankers climb all over each other to lend, which encourages a country to postpone badly needed austerity. Any hint that hard times are ahead, however, and the bankers jump ship, reducing their lending all at once and exposing borrowing nations to severe liquidity problems. In other words, collapse.

Enter the IMF. With only $60 billion in loanable funds, the IMF cannot bail out even one of the large debtors, but the fund can—and does—act like a catalyst in getting lenders to continue lending money. "There is a game—the international trading system," says Jan Shinpoch, of the House banking committee. "What the IMF does for a living is to keep everyone in that game."

In order to do this the fund imposes strict austerity measures on countries that have fallen into debt. Remember, the fund is not a bank. It is an adjustment institution invested with but one task: to bring a country's balance of payment in line (that is, get the bankers their money back as fast as possible). In the best of economic times, when only a few countries seek help from the fund, these measures are effective. Debt is curbed, profligate spending (by both bankers and borrowers) is curbed, and policies of fiscal and monetary restraint are undertaken.

But these are not the best of times. World trade is plummeting. Commodity prices are at their lowest real level in 30 years. Per capita incomes are falling in Latin America and most of Africa. Growth has been halved in the once dynamic East Asian nations. In 1974, only three countries were even close to defaulting on their foreign loans; at the end of 1981, before the worldwide recession deepened, 32 nations were in payment arrears. In the past two years, the fund has made over 80 loans to more than 60 nations—its busiest period ever.

And herein lies the problem. If all the countries that come to the IMF for last-resort assistance are told to cut down on imports and increase exports, who is going to buy the goods? IMF policies, which do well when strangling the profligacy of someone like President Mobutu of Zaire (who wasted millions on such things as a paved four-lane highway that abruptly stopped at his lavish presidential mansion), prove disastrous when applied to so many countries at once.

The truth is that for the international economic order to avoid collapse, good money must be sent chasing after the bad. That doesn't justify the overlending by banks during the 1970s or the excessive spending of many Third World countries, but it does suggest that the best way—the only way—out of the current crisis is to "keep everybody in the game." Right now, that means a policy of expansion.

The Noose Isn't Loose

To understand why the terms of most IMF loans aren't what the world economy needs right now, it might help to know how the loans work.

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Unlike loans from the World Bank and unlike most bilateral aid, IMF loans are not tied to a specific project; they are available to pay the general expenses of borrowing governments. But like your mother, the fund requires certain behavior in return. Depending on the type of deficit—and there are many, including falling export profits and rising oil bills—the fund will require specific nationwide economic alterations in exchange for a loan. The tools at the fund's disposal include currency devaluation, budget deficit ceilings, withdrawal of price supports, and many other means of forcing change in a local economy.

Because the IMF is the lender of last resort, it's in the driver's seat. A former Latin American executive director of the IMF explains what that means: "The fund tells the country, 'You have to cut food subsidies and transportation subsidies [but never defense spending] and this is going to be your wage policy. You are going to increase your wages at this rate.' If the country fails to comply with those figures, the IMF stops financing. The policy is the carrot and the stick."

The stick in almost all cases is the same: deflationary monetary and fiscal policies aimed at cutting back consumer demand. The IMF calls this necessary austerity; most people call it recession. That's probably all right with those at the IMF, where recession is not a dirty word.

Imposing an austerity program in a world of economic growth and rampant inflation is one thing, but staying the course amid contraction and deflation is quite another. "In many countries seeking IMF loans, the gulf between social classes is enormous and the prevailing political realities may deny the possibility of the austerity measures the IMF requires," writes Felix Rohatyn, the investment banker who designed the bailout of New York City. "Increasing radicalism, demagogy, and anti-western agitation may be the result. We must remember the evolution of Germany in reaction to the Dawes and Young plans of the 1920s, which were meant to finance German World War I reparations. That Germany's national wealth was seen as being drained off to pay back foreign banks helped create the climate in which Hitler took power in 1933."

While IMF austerity measures do not do to the developing world what the Dawes and Young plans did to Germany, they often unnecessarily limit growth in the years ahead for both developing countries and the developed nations that deal with them (the developing world buys 40 percent of all U.S. exports). If the developing countries follow IMF prescriptions, the result will be more misery, the reason being that the fund is applying the wrong economic medicine. Most of the developing world's debt is the result of external variables—the most important of which is U.S. monetary policy—not excess demand. But the fund is too caught in its deflationary world to see the difference.

And there is a difference. Most nations' problems are deep-rooted and not simply the result of profligate behavior. By tightening the credit supply to get at inflation, the Federal Reserve reduced inflation. But the deep worldwide recession that followed, combined with the rise in the price of oil in 1979, has devastated the economies of many countries—developing countries in particular. Debt has become a way of life for these nations, so much so that the short-term austerity programs offered by the fund are not achieving the structural adjustment that is needed. The only way to alleviate the externally induced pain is to become less reliant on it—to substitute domestic for foreign-

The IMF is lending heavily now, and pushing banks to extend their credit. But astonishingly enough, the terms of its loans still call for slowed growth—in the middle of a severe recession.

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produced goods. Unfortunately for these countries—and for the world—the fund has been content simply to hack away at inflation and resist providing incentives for growth.

"The credit conditions of the IMF," says Chandra S. Hardy, an economist at the World Bank, "normally presume that balance-of-payments problems are the result of too much demand and can be solved by balancing the budget, curbing the money supply, and cutting subsidies. Sometimes these measures are appropriate and effective. But in many cases they reduce domestic consumption without improving investment, and productive capacity sometimes falls even more sharply than consumption." Isn't it self-evident that production—even consumption—is what the world economy needs most now?

Not to the IMF. Anything that has to do with building houses or creating jobs is not something the fund believes it should be involved with. The fund must stick to short-term programs aimed at reducing demand, even though demand is not what has forced these countries into payments arrears. If the fund were doing what it was created to do—address the causes of these problems—it would have to begin making longer, more concessional loans, or short-term loans with different incentives contained in their terms.

"There is no sense in having most countries in trouble trying to tighten their belts too quickly," says Harvard's Sachs. "No country couldn't pay off its debt sometime. All these countries in the medium-term could pay off. Countries don't go broke—there are always enough resources to go around."

Jacques DeLarosiere does not agree. The greater the trouble the tighter the belt, according to the managing director. DeLarosiere believes that because of the recession it is necessary for countries with balance-of-payments deficits to take drastic action to adjust those imbalances. This view would no doubt disturb the man who first conceived of the fund, the man whose bust still sits in DeLarosiere's office—John Maynard Keynes. Keynes's vision was of an institution that would provide liquidity to grease the wheels of the world economy, not some niggardly body that assists in grinding those wheels to a halt.

Still Dour at 11th Hour

The political consequences of such an approach can be severe. Riots are not an uncommon response. Take Egypt. In 1977, Anwar Sadat was granted an IMF loan on the condition that he lift all subsidies on basic food products, including flour, tea, sugar, and oil. The Egyptian government complied, and the day after the new policy went into effect the prices on all these products were raised. "The subsidies were a big burden on the economy," says Eva Nowotny, a diplomat stationed in Egypt at the time. "But on the other side there was a mass of people depending on the subsidies; it concerns the basic food people eat—there is nothing else. Without the subsidies people couldn't afford to pay prices like that."

Prices went up one day and people rioted the next. "The riots were quite extensive," says Nowotny. "There was a lot of plundering, shops were broken into, police were attacked, cars were overturned, and houses started burning. There was not much shooting going on—the police used mainly tear gas."

So this is what is meant by "stabilization" policy—not much shooting, mainly tear gas.

It hardly need be said that when faced with the choice between staying popular (not to mention alive) or paying back international banks by means of a painful austerity program, more and more Third World leaders might be inclined to choose the former. Eventually, of course, that could mean default—which is exactly what the International Monetary Fund was supposed to prevent in the first place.

If there is a locomotive that can pull us away from this precipice it is consumer spending. The IMF has the power to fuel that train if it wants to. As always, the terms are of paramount importance. The fund must look beyond simply getting banks back their money through credit restrictions, reductions in subsidies, and other acts of suffocation. Instead of using the same old bag of tricks to produce quick repayment, the IMF ought to think about producing something else: consumption and growth. To do that, the fund must focus on helping the countries that are in trouble—not just on the banks that helped get them there.

What the IMF should do is prime the pump. It should increase consumer credit, allow for subsidies on basic commodities and—something the money managers at the IMF find anathema—promote public works projects. Because the fund wasn't around during the last depression, it might not realize that these were what helped pull the United States—and the rest of the world—out of that mess. If this international organization doesn't learn to appreciate this fact of economic history soon, we'll all pay. It's still not too late for the IMF to redefine itself. Not yet anyway. ■

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TIDBITS AND OUTRAGES

The Government Tried To Collect By Holding His Hand Over An Open Flame

Through films, books, and lectures, G. Gordon Liddy earned $135,000 in 1981 alone. Liddy still owes the government $23,812 of the original $40,000 fine assessed against him in 1973 because of his role in the Watergate break-in.

"Hut-Two, Suck In That Gut, Private"

General Edward C. Meyer, Army Chief of Staff, has ordered the Army to come up with camouflage fatigues for pregnant soldiers by October 1, 1984. Meyer has also reaffirmed the existing policy that male soldiers in uniform cannot carry umbrellas—but female soldiers can.

Time Well Spent

The Charleston Gazette *reports that in a class-action suit against the Public Health Service, a U.S. judge in Washington, D.C. granted the successful attorney a $105,500 fee—$49,999 for actual work at $50 an hour, another $49,999 as "incentive bonus" because it was a difficult case, and $7,500 for time the lawyer spent drawing up his fee bill.*

Mssrs. W-A-S-T-E and H-O-G also filed claims

In a recent test to determine internal controls on federal spending, the General Accounting Office submitted ten fake payment vouchers to the Department of Agriculture. The department's National Finance Center approved all ten vouchers for processing and mailed checks to the non-existent individuals and companies, all of whom had the initials G-A-O.

Relying On The Evidence

According to *The Wall Street Journal*, Dr. Bruce Dan, a former researcher for the Center for Disease Control who helped link Proctor and Gamble's Rely Tampons to toxic shock syndrome, has quit the agency. Dan now testifies on behalf of women suing Proctor and Gamble for a fee of $3000 a day. Meanwhile, Dr. James Todd, a Denver physician who first identified toxic shock syndrome, testifies on behalf of Proctor and Gamble. His fee is the same.

But They're Quality *Minutes*

BEDTIME MINUTES FROM SHARI LEWIS

Shari Lewis, the world-famous ventriloquist, author, newspaper columnist, and multi-talented entertainer, has collected 20 favorite children's stories, from around the world, and condensed them so they can be read by a busy parent in only one minute. Shari Lewis originally thought of this new book as a much needed aid for working parents who *do* want to read to their children but just don't have the time or energy for the much longer versions of these tales.

One-Minute Bedtime Stories with its colorful, appealing illustrations on every page, brings some of the warmth and closeness between parents and children which can be so easily lost in a harried world.

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The Agony And The Avarice

BY ED BARNES

It's common knowledge nowadays that the people getting rich off litigation against negligent companies aren't the cancer victims but the lawyers. In asbestos cases, for instance, only one out of every five dollars spent on litigation goes to injured workers; the bulk goes to the well-spoken men and women who breathe nothing stronger than the mink oil on their leather briefcases.

But it's not every day that one of those who reaps this lawyerly booty ends up being honored by election to the U.S. Congress. Yet that's exactly what has happened to Frank J. Guarini, a newly reelected Democrat from New Jersey's 14th District, whose legal efforts earned him the distinction of being the member of Congress with the highest outside income for the year of 1979. Guarini represented 860 former employees of the American Can Company, many of whom left their jobs with bone cancer and emphysema because of the hazardous chemicals they handled. As a result of a final settlement of $2.3 million, each received an average of just over $1,400 for their woes. And Guarini? Though the case cost his firm only $152,000, his share amounted to almost $1 million—a remarkable 44 percent of the total settlement.

Guarini hails from Hudson County, so his appetite for financial wealth shouldn't be surprising. He follows in the illustrious tradition of such dedicated public servants as Union City Mayor William Musto, who won reelection last year even after being convicted of racketeering. But while the Hudson County Democratic machine, of which Guarini is one of the better oiled parts, may be powerful, it's not omnipotent. Recently I was able to obtain sealed documents from the case, documents that Guarini no doubt assumed would some day end up in a municipal incinerator. Guarini repeatedly refuses to be interviewed about the American Can case, but the story these documents tell should be of interest even to his indulgent colleagues and jaded New Jersey constituents. Frankly, I think it should interest the rest of us too.

Ed Barnes, a New York writer, was formerly a special agent for the Commission on Investigations of New York State.

The Duke of Hazards

The story begins with a man named Ed Burger, an American Can worker who took a vacation in 1970 and never came back. Burger, who worked in the plant for 21 years, had shown signs of illness since 1966, but it didn't really hit him until this vacation. After being rushed to the hospital, he was told he was slowly bleeding to death because the chemical solvents he had breathed for 20 years had acted on his bone marrow the same way they acted on metal.

From November 1970 until his death six months later, Burger suffered bouts of internal

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Courtesy of New Jersey Newsphotos

bleeding that his body had no ability to stop. A whiff of almost any manufactured chemical was enough to bring on an attack. Doctors told his wife to remove all chemicals from the house—no pesticides, no hairspray, no nail polish.

Burger's death forced many American Can workers to consider their own health and the chemical dangers around them. Soon, other long-time employees began to feel the first effects of contact with such solvents as phosgene, which was once used as a nerve gas, ketone, toluene, and other petroleum-based distillates that were passed around the plant in unmarked buckets.

As the incidences of illness increased, employees filed for the meager benefits of workman's compensation. As usual in such situations, the workers turned to their union attorneys to help them through the red tape. For most of those at American Can the attorney was Frank Guarini, the local steelworkers' counsel.

Guarini and others in the union apparently helped with workman's compensation, but they did little pushing to improve health and safety conditions. For a long period, according to court records, "the company was aware of the hazards associated with the use of chemicals supplied from its own experience, from its own environmental tests and tests conducted by local and state agencies; American Can negotiated with various representatives of [the steelworkers] union and representatives of various governmental agencies to allow it to ignore or delay the implementation of health and safety measures."

But the tide of rising claims finally forced the company to choose between upgrading the plant, which had been Jersey City's largest employer

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since the 1920s, and walking away. The company decided to walk.

The announcement of the plant's closing in 1975 was doubly painful for American Can workers who were now sick and out of work at the same time. For most of those who had spent decades at the plant, there was little prospect of finding new jobs.

So it was welcome news in the union hall of the Steelworkers Local 6300 when word came that a suit was to be filed against the company. Anyone with health problems was told to walk a few doors down Newark Avenue to talk to Local 6300's attorney.

Between 1974 and 1976 more than 850 workers made the short trip from the union hall to Frank Guarini's office just outside the courthouse. Once in the office, according to several of the workers, a prepared contract was taken from a drawer and given to the worker. The fine print of the agreement stated simply that the undersigned agreed to retain Guarini and give him the right to settle the suit at any time he deemed advisable. It also stated that the attorney's fee would be in accordance with New Jersey Supreme Court rules.

It's clear from court records that by the time Guarini finished adding plaintiffs to his suit, he had a good idea of just how strong his legal position was. As union attorney, he knew all about the plant's health problems and the workers' medical records, and he already had proven American Can's liability in the workman's compensation cases. His suit, modeled on asbestos lawsuits, charged that American Can Company's chemical suppliers and the Manufacturing Chemists Association (the industry trade group responsible for labeling standards) failed to warn workers of the dangers associated with the chemicals that killed Ed Burger and now threatened the lives of many others.

Soon, lawyers for the chemical suppliers began scrapping among themselves and with American Can over liability. For almost two years, the substance of the workers' claims was virtually ignored while the chemical companies sought indemnification from American Can. Then in 1977, Hudson County Superior Court Judge Robert Tarleton issued a ruling that excluded American Can from any liability because of its protection under workman's compensation laws. The ruling meant that the chemical suppliers would now bear the full burden of lawsuits by the workers.

It quickly became clear that the chemical suppliers had indeed been negligent, and settlement talks began. The negotiations were mediated by one of Judge Tarleton's colleagues, Judge Richard Connors. The court documents reveal that on April 12, 1978, Judge Connors wrote a memo to Judge Tarleton explaining that Guarini had asked for a $4.5 million settlement. The chemical companies, he wrote, countered with an offer of between $2.5 and $2.8 million.

Judge Connor was quite clear on what should have happened next. "As soon as the defendants make a tender offer of approximately $3.5 million dollars," the judge wrote, "plaintiffs' attorney [Guarini] should reduce his demand to $4 million dollars. At that time a meeting should be held with all parties and their attorney and the case should be settled somewhere in the neighborhood of $3.7 million dollars."

Congressman Guarini made nearly $1 million. The cancer victims he represented received an average of only $1,400 each.

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That's where settlement figures usually end up—somewhere in between each party's offer. But records show that by early May 1978 Guarini had hastily accepted the chemical companies' initial offer of $2.8 million ($500,000 of which was to be returned to American Can to repay workman's compensation claims.) Not coincidentally, 1978 was also the year Frank Guarini was first elected to Congress. The Democratic primary was in the spring, and some county lawyers later complained that Guarini was in such a hurry to wrap up the negotiations and resume campaigning that he simply caved in on the settlement figure. This meant less for the sick workers, but less for him too. Apparently when faced with the choice of making a million and going to Congress, or making perhaps a couple of million and not going to Congress, Guarini chose the former. (Even in Hudson County, public service has been known to come first.)

Not that the final settlement represented a hardship—at least as far as Guarini was concerned. Guarini submitted records to the court showing that the total cost of the suit to his five-member law practice, including phone calls, postage, and office supplies, was only $152,000. After claiming $1.1 million of the remaining $2.3 million, he was left with just under $1 million in clear profit. "No one is going to get rich off this suit," he had assured opposing attorneys during settlement talks.

CanScam

How exactly did Guarini prove himself wrong? Through a slick and questionable maneuver. Under New Jersey Supreme Court rules, among the strictest in the nation, the maximum contingency fee that Guarini or any lawyer can charge in a case involving more than $100,000 —unless he specifically petitions the court for a hardship exception—is about 10 percent. Guarini circumvented those rules simply by billing each of the 860 workers as if he had handled the cases individually. The maximum allowed for cases under $3,000 is 46 percent—and Guarini helped himself to all but 2 percent of that.

Several New Jersey attorneys who asked not to be named say that it would appear that Guarini's fee schedule violates New Jersey Supreme Court rules. Normally, suits with such large numbers of plaintiffs either are handled as class actions or are consolidated as a single case.

I interviewed more than a dozen workers who were party to the suit, and all said they had been led to believe that there was only one suit and that all of the workers who went to Guarini's office were part of that litigation. Guarini's law firm never handled them as individuals. Interrogatories, for instance, were undertaken with an attorney supervising the completion of forms by several of the workers at once. According to the court records, even Judge Tarleton commented at one point that the case had been approached as if it were a "class action, although that was steadfastly resisted during the course of the litigation."

Several of the workers also say Guarini's earlier work for the union led them to believe that the union local, which had been dissolved after the plant closed, was backing the suit. Guarini did little to disabuse his clients of this assumption, but in truth he was acting on his own. Emil Oxfeld, New Jersey regional counsel for the United Steelworkers of America, says that neither the regional nor the national office of the union was informed of the filing of the suit. Oxfeld says that counting each plaintiff as an individual was "peculiar" and that it is "not the normal way to handle these matters."

The attorneys representing the chemical companies thought it was so peculiar that they asked that the records of the case be sealed. The chemical companies didn't want word of Guarini's share to leak out for fear the workers would be so mad about their miniscule awards they would sue for more money. "The possibility of a successful attempt by one or more plaintiffs to reopen the case would increase astronomically" if the settlement amount was made public, two attorneys for the chemical companies argued. (Guarini, then chairman of the Hudson County Democratic Party and a candidate for Congress, obviously had no objection to sealing the documents.)

But even after the workers found out what had happened, nothing changed—and still hasn't. Three workers attempted to challenge the settlement. One has died of cancer. Another got cold feet, afraid that a new employer would find out about the suit and think he was too ill to work. The third, Frank Morrison, says he tried to hire an attorney to block the settlement but was told that his award—$1,439—wasn't enough even to begin such a legal challenge, much less go to court.

"We were robbed, there is no question about it," Morrison says. "We made Guarini so much money and we got nothing." ■

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RADICAL SURGERY:

LET'

Everyone knows the nation's Social Security system is tottering on the edge of insolvency. But here's a prediction about as safe as guessing Roy Williams won't be the last convicted Teamster official in the union's history. Soon after all the talk dies down about old-age pensions, the nation's politicians and editorial writers will suddenly discover something alarming about the nation's Medicare system: it's in even worse shape.

And no wonder. When Congress first passed the program in 1965, entitling anyone over 65 to free hospital care regardless of whether the patient is a poor widow or the retired chairman of Exxon, it estimated the program would cost $8.8 billion by 1990. Congress missed by only 18 years. Costs passed that point in 1972 on the way to $43.5 billion in 1981, and by 1990 they're projected to triple to more than $100 billion. By then, however, the current Medicare fund will be bankrupt.

The imminent Medicare crisis merely reflects a much larger problem: an entire health care system that is killing us in more ways than one. Last year health care in America cost $287 billion, almost 10 percent of our GNP and $50 billion more than the Pentagon consumes. Official government figures for 1982 aren't yet available, but there are inklings of more bad news. For example, employee health insurance premiums for the nation's largest companies have soared nearly 25 percent this year, the biggest increase since World War II. Keeping autoworkers and their families well now adds over $400 to the price of a typical GM car.

And what are we getting for all this money? A health care system whose quality is second to—well, to just about every country that the U.N. doesn't assign to the second, third, or fourth world. According to the 1979 report of the U.S. surgeon general, 12 industrialized countries do a better job than the United States of preventing cancer deaths. Eleven have lower infant mortality rates. Fourteen have longer life-expectancy rates for men, six for women. A startling 26 have lower cardiovascular death rates. Britain's system of

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DRAFT THE DOCTORS

By Phil Keisling

Photo by Dottie Andrake

"socialized medicine" admittedly is having problems because of large budget cuts, yet by spending less than 6 percent of its GNP on health care it still beats the United States in all these categories.

Of course, health care costs are unduly inflated by patients' insistence on the "best care possible" and the hefty malpractice premiums doctors must pay. Americans' predilection for cigarettes, greasy foods, and avoiding exercise also bear responsibility for our poor health. It's also true that American medicine can be just as good as its participants would like us to believe. Stunning advances have allowed us to defeat many of the cancers, infections, and heart ailments that once were certain killers. American medical research is internationally renowned, and many doctors and nurses are competent and dedicated people.

Unfortunately, the American medical "system" is one whose whole is less than the sum of its parts. And to really understand the system's failures, it is necessary to realize that what lies at its heart is not an overriding concern for the patient, let alone the taxpayer. Rather, it is selfishness. It is a selfishness that shows in many ways: in the expectations of 35-year-old neurosurgeons to earn $350,000 a year to do the work they love; in hospital administrators more interested in expanding their bureaucratic empires and placating their physicians than saving money; in the cult of "professionalism" that deprives capable people of responsibility. Above all, it shows in the system's ability to perpetuate itself.

Between doctors, hospital employees, insurance and pharmaceutical industry workers, and government health bureaucrats, more than ten million Americans owe their livelihoods to the American medical-industrial complex. That's 60 percent more than just a decade ago. So powerful is this phalanx that even the most minor health care reforms usually drown in a deluge of controversy and PAC contributions. Participants in the health care debates of the last two decades know that the process has somewhat resembled trying to coax an elephant out of a walk-in closet. He may

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be moved a little, but only after great exertions. And unless some walls are knocked down, the elephant's predicament will only get worse.

Knocking down those walls is the solution few people are willing to entertain—which is exactly why the "urgent need" to solve the "health care crisis" has become such a tired and time-worn cliche over the last two decades. "This country can no longer tolerate outrageous doctors' incomes, bloated by Medicare and Medicaid fees, while this country disgraces itself before the world's health care standards," the late Representative Benjamin Rosenthal once declared. But Rosenthal was wrong. He uttered those words in 1969, when the average doctor made about $30,000 rather than $90,000. Rosenthal also spoke at a time when *fewer* Americans were without some form of health insurance. Today about 25 million lack such coverage and increasingly common as the recession deepens are stories such as that of a 51-year-old Tennessee textile worker who went to the hospital for a hysterectomy, developed pancreatitis, and was denied readmission because she couldn't afford a $700 deposit.

Things promise to get worse so long as erstwhile reformers on both the right and the left embrace ideas that are doomed to fail. Start with the traditional liberal solution: some form of national health insurance intended to guarantee every American equal access to the health care system. Some proposals merely commit the government to pay for everyone's hospital bills—the "blank check" approach to health care financing. More elaborate schemes such as that proposed in 1979 by Senator Edward Kennedy superimpose extremely complex government regulation on private physicians and hospitals who've amply demonstrated their ability to subvert all past efforts to curb their appetites. The impotence of Medicare's cost-containment provisions is one example of this; Canada's experience is another. Strict fee limits under its 1962 health insurance law have not stopped Canadian doctors from keeping salaries high; they simply perform more operations and other medical procedures.

Another popular notion, most articulately presented by Alain Enthoven, a former McNamara whiz kid who is now at Stanford, is to remedy the health care system's ills by introducing more competition. Enthoven hopes this will lead to a national network of health maintenance organizations consisting of both doctors and hospitals

CONSULTANTS IN WHITE COATS

When a hospitalized patient has anything but the most run-of-the-mill illness, today's doctor usually calls in a specialist. In fact, most major teaching hospitals now have more specialists than hospital beds.

Sometimes these specialists do just what they're supposed to—introduce a bit of arcane knowledge that helps save a patient's life. But often there is something else at work. The explosion in expertise has been so dramatic in recent years that many physicians feel incompetent outside of their narrow field. They get a little insecure if an "expert" isn't consulted on even the most routine illnesses. In the trade, these consultations are called "CYAs"—for cover-your-ass.

In defusing responsibility for a possibly wrong diagnosis, these consultations raise the cost of care in several ways. The consultants charge a fee, of course, but the real expense comes from the special tests they recommend. It's an unwritten rule that a consultant must suggest at least one test that has not yet been done to feel his "expert" status has been justified.

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To show the extent of this problem, a group of us at Harvard medical school recently studied 156 consultations at a major teaching hospital. A few days after the consultations, we asked both the consultant and the primary physician a simple question: "What was the purpose of the consultation?" Despite very liberal definitions of "agreement," we found that in 20 percent of the cases, the doctors had completely different goals in mind. In one case doctors asked a neurological team to give the prospects for a woman who'd suffered brain damage during cardiac arrest; the team offered no opinion on that subject but did give a lengthy and detailed opinion on what else could have caused her brain damage.

This data does not mean that these doctors are fools or incompetents, or that patient care suffers. Our impression was that these are bright people asking good questions and making intelligent statements—only there isn't always someone listening.

So if you're ever a patient, and among the dozens of doctors you cannot tell who is in charge, or who knows the plan, or if there even is one, don't just lie there. Stop these sometimes intimidating people and ask, "Have you guys actually talked to each other?"

—Dr. Thomas Lee

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that provide comprehensive coverage for a set fee. These HMOs will supposedly be encouraged to cut costs by emphasizing preventive care and less hospitalization. This strategy certainly could help; the health care system's cost-plus mentality puts even the Pentagon to shame, which at least goes through the semblance of competitive bidding on new weapons systems. But aside from the fact that entrusting the free market with such a vital commodity as health care is at odds with larger notions of fairness—private insurers during the 1950s, for example, competed by kicking the sick, the poor, and the elderly off their rolls—such systems ultimately depend heavily on the government's willingness to discipline providers. The Reagan administration recently unveiled its own "pro-competition" plan; if you've guessed that legions of various lobbyists are prowling the corridors of the Department of Health and Human Services at this very moment, offering to "assist" government officials in calculating their reimbursement formula, you've guessed right.

The inescapable truth is that the nation has wasted far too much time and money trying to reform a system that never should have been allowed to exist in the first place. As weary as the subject may now seem, it's also clear that fundamental changes have never been more urgent. In the next 20 years the number of Americans over 65 will double, and since medical care for them costs an average of six times what it does for the rest of us, the nation's medical bill cannot help but rise. The real choice is whether the hemorrhaging of cash proves fatal.

It's time to act. There is a way to knock about $100 billion off our current health care bill while keeping our population as healthy—if not healthier—than it is now. Getting there requires only three basic steps: drafting the nation's doctors, nationalizing our hospitals, and making medical education absolutely free for anyone who qualifies.

This probably strikes you as somewhat radical, and that's precisely the point. Health care in America is one of the rare issues in contemporary politics where those who seem like the wild-eyed fanatics are talking the most sense. Like it or not, the patient is too far gone; nothing *except* radical surgery will save him.

I. DRAFT THE DOCTORS

America's 450,000 private physicians are the backbone of American medicine—and the major reason we're getting worse care for more money than any other country in the world. Reduced to simple terms, the doctors' complicity involves two things: they make too much money, and they practice too much medicine.

Doctors may work long hours—many times over 50 hours a week—but then so do lawyers, dedicated teachers, and small businessmen. It is also true that doctors go through grueling residencies after having to borrow as much as $50,000 to pay for medical school. But graduate students in philosophy also borrow large amounts of money—and upon graduation may find themselves competing with 400 other candidates for an $18,000-a-year slot at Alfred University. Besides, who *wouldn't* borrow $50,000 these days if it virtually guaranteed $100,000 earnings before reaching the age of 40?

High salaries might be pardonable if they did what they were supposed to do: ensure that Americans get appropriate, quality health care. But in practice, fee-for-service medicine encourages just the opposite. For example, the nation is suffering from a glut of specialists, while there's a shortage of primary-care doctors, particularly in remote rural areas. Yet 70 percent of medical school graduates still choose specialty practice for a reason Willie Sutton could appreciate: that's where the money is.

One of them is Dr. Vernon Martens, the chief pathologist at the Washington Hospital Center in Washington, D.C., who insists on a fixed percentage of all tests performed by his department. Howie Kurtz of *The Washington Post* discovered that Martens and four associates pulled in at least $771,000 in 1981—Martens, who got the lion's share of that, only worked part time. He received $144,000 from another hospital as well.

Shouldn't too many specialists discourage their production and lower their earnings? It should, except that doctors have managed to put aside the animosity they might have towards "ambulance chasers" long enough to emulate the legal profession's full-employment strategy. Just as an increase in the number of lawyers has resulted in more lawsuits, modern medical economics dictate that the greater the supply of physicians, the greater the amount of "medical care." Dozens of studies show that areas with more surgeons have more operations; areas with a surplus of obstetrician/gynecologists show more hysterectomies.

Powerful economic incentives encourage too many of these operations. A general practitioner knows that in a morning of operating he can make as much as he can in two days of office visits. This helps explain why the United States has twice as

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much surgery per capita as England, including five times as many coronary bypass operations. Medicare and Medicaid make the problem worse by reimbursing doctors for minor operations only if they're performed in hospitals. Moreover, by reimbursing doctors according to "usual and customary fees" in a given area, the government gives doctors a handy device to maintain the style of living to which they've become accustomed, even if business slacks off. Medicare dishes out $1,000 for a gall bladder operation if it's performed in Beverly Hills—but only $400 if it's done in Findlay, Ohio.

More important, fee-for-service medicine subtly corrupts its own practitioners. Motives for entering medicine are many and complex but the strongest is the desire to be a healer. This urge is motivated not only by idealism, but also by need for the personal gratification and emotional intensity that come with any job involving life or death matters. The attraction to medicine is powerful; many doctors, enthralled as children with their own physician (often a father), say they never thought of doing anything else.

Unfortunately, the feelings of dominance that inevitably accompany the healer's role frequently overpower whatever native idealism a doctor might have brought to his profession. The grueling 100-hour weeks spent as a resident encourage him to feel unappreciated for his important work. As he gets older, he also begins believing that the same power and respect he commands in the office or operating room should extend into the community, where the badges of success and status, instead of centering on the value of one's work, center on material possessions and social standing. And as the fee-for-service system combines with the doctor's revered status to make these things so accessible, what increasingly becomes important are not the satisfactions of medicine itself but the benefits that result from practicing it. For these doctors, stories of million-dollar incomes do not provoke outrage, but envy. Magazines such as *Physicians' Assets*, which describes strategies for sheltering income in shopping centers or cheap rental housing bought at sheriffs' auctions, are scrutinized with the same care as the latest medical journals.

Bringing to Heal

Just how the system fosters such values was amply illustrated in the case of a 35-year-old cardiologist I met last summer. He was a genial man who spoke enthusiastically about the challenges of his work, the long hours he put in, and his belief that the heart was a "fascinating organ." But he spoke just as enthusiastically about the $150,000 a year he was making and the various tax-shelter schemes (a condo in Vail shared by his partners, a leased automobile) that had reduced his tax liability to $1,200. Though he aspired to excellence in his field, he also clearly aspired to imitate the elder doctors in his group who pulled in $350,000 a year and enjoyed 12 weeks of vacation each year. When I asked him whether he'd continue practicing cardiology if he made only $50,000 a year, he looked as if I had just asked him whether he ever deliberately killed his patients. But after a long pause, he admitted he probably would. "I can't think of anything else I'd rather do." he said.

Exactly. So to eliminate the incentives for expensive and unnecessary practice, and return idealism to American medicine, the nation's doctors should be put on the public payroll and given a comfortable salary (an average of about $50,000 a year, adjusted for experience and performance, would still put doctors in the upper 10 percent of all U.S. workers). This will liberate them from such worries as malpractice insurance fees and bill-collecting and would let them devote their full energies to medicine's real purpose: healing the sick and promoting good health for everyone. This would allow the doctor to be a truly selfless professional, dedicated only to excellence in his craft, while he's protected from the turmoil of the marketplace. In other words, he could really be the kind of doctor the AMA conjured up in its recent lobbying efforts for exemption from FTC antitrust review.

Although more than 15 percent of this country's doctors already work on a salaried basis (for example, under the Veterans Administration hospital system), a lot of doctors obviously will ferociously oppose conscription into a National Health Care System. Expect mass demonstrations, nationwide advertising campaigns, and a congressional lobbying effort that will make the recent FTC battle look like a tea party. Effectively countering such opposition will take a combination of gentle persuasion and hardball politics—which is where hospital privileges come in. Though the vast majority of private physicians have admitting privileges to one or more hospitals, they pay virtually nothing toward defraying the costs of nurses' salaries, medical equipment, and other overhead. Since the government in turn pays more than half of all hospital bills through Medicare, Medicaid, and various tax incentives for private insurance, it should offer hospitals a simple deal: Doctors who agree to join the National Health Care System can continue with this arrangement. Other doctors must be assessed a reasonable share of the hospital's expenses, or the hospital becomes ineligible for government-financed patients.

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II. NATIONALIZE THE HOSPITALS

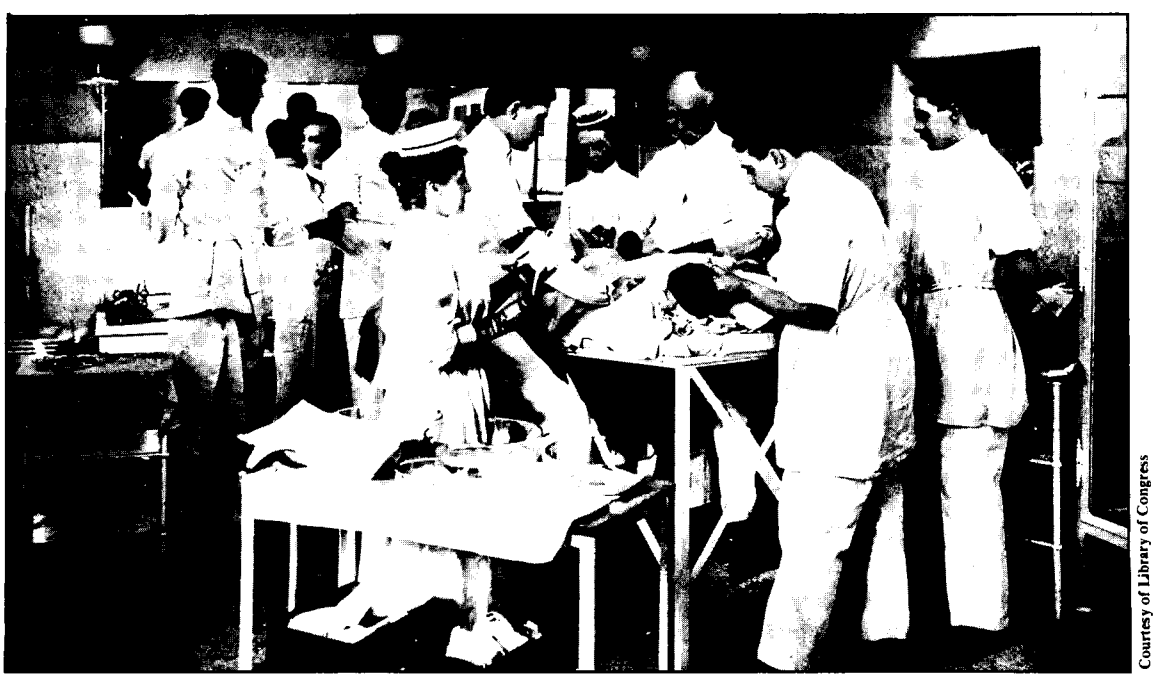
Hospital charges and associated physician fees account for about 70 percent of the nation's medical bill, so controlling these institutions is crucial in any effort to reduce health care expenses. But much as the nation's hospital administrators talk a good game about reducing costs, a simple fact remains: Hospitals have no real interest in substantially reducing the cost of medicine.

An analogy is helpful here. Imagine a steel mill built, started, and maintained at public expense. The mill's managers allow a select group of people to make steel in this plant. These steel-makers pay almost nothing for the privilege and can charge buyers whatever they wish.

Doctors have a similar arrangement with American hospitals. In fact, a hospital's real customers are not its patients but its doctors, whom they depend on to keep their beds full, thereby generating from private insurers and the government revenues necessary to defray the expenses of salaries, medical equipment, and other overhead. Staying on the doctors' good side is thus an administrator's first priority; as Mike Bromberg, executive director of the Federation of American Hospitals puts it, "The doctors can always pick up their black bags and go to the next hospital. . . To try and make us their watchdog is like asking a retailer to keep people from spending too much money in his store at Christmas." With occupancy rates declining and administrators scrambling to balance their budgets, the pressures are stronger than ever for hospitals to keep their doctors happy.

Only by putting hospitals under public control can the dynamic be broken that causes administrators to pander to their physicians' whims while they waste money trying to compete for patients. (One Arizona hospital, for example, tried to attract customers by advertising two-room deluxe suites where patients were served cocktails and cordon bleu chicken while former airline stewardesses in gold miniskirts poured the wine and lit the candles.) If a doctor who is refused a new operating room starts acting like a petulant nine-year-old who threatens to take his ball home if he can't be the pitcher, the hospital could simply give him a pat on the back and wish him the best of luck elsewhere—in another public hospital.

Nationalizing the nation's 7,000 hospitals would be relatively easy. Some of them already are in public hands, such as the VA's 172 hospitals and numerous hospitals maintained by local governments for indigent citizens. Most of the nation's hospitals are "nonprofit" institutions which have no stockholders, and instead plow "excess revenues" back into new equipment, administrative salaries, and, increasingly, such investments as real estate and shopping centers. These hospitals (plus those owned by investors) could be purchased with long-term bonds, just as many of the nation's trolley systems were purchased by the government in the early part of the century.



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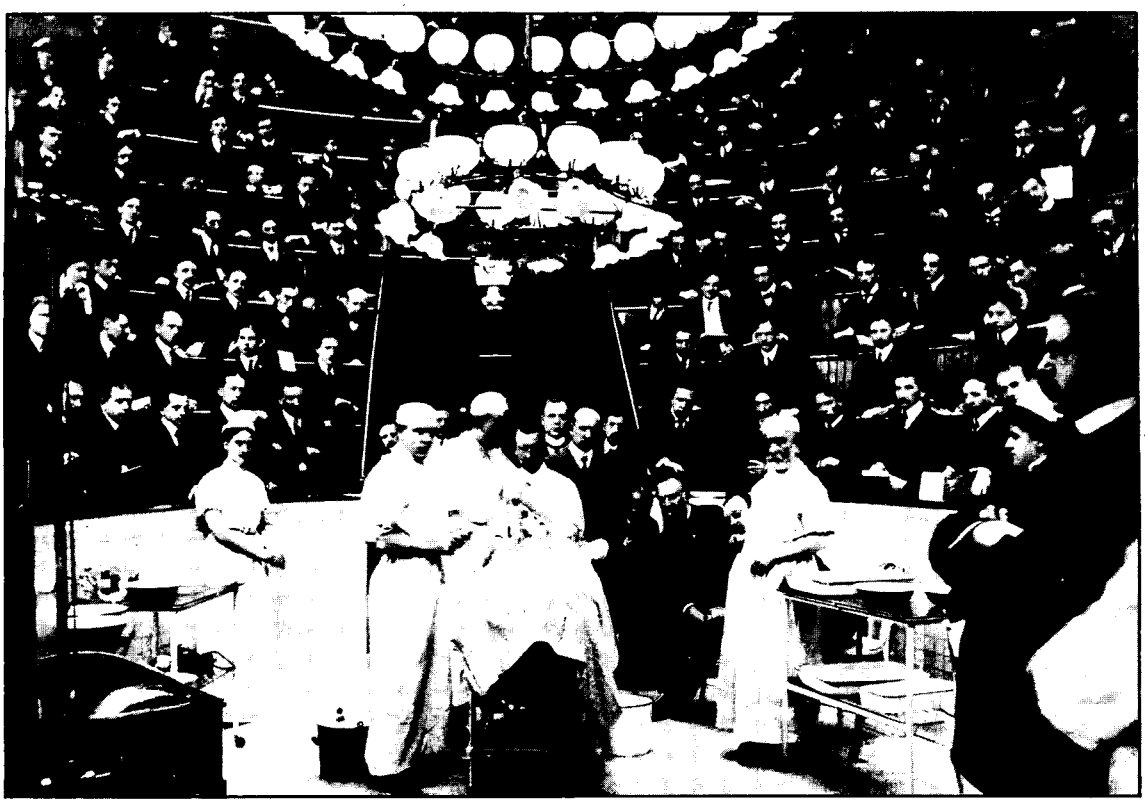

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III. NATIONALIZE THE MEDICAL SCHOOLS

This is hardly a revolutionary proposal. Between subsidizing student loans, allowing medical schools to control VA hospitals for teaching purposes, underwriting several billion dollars of medical research, and paying schools bounties for each student, the federal government already underwrites most of the nation's medical school training. Yet what does the taxpayer get for such generosity? Almost nothing. The federal government has almost no control over the graduating doctor; it is unable to dictate that he or she practice in a medically underserved area or avoid a speciality already glutted with practitioners. The only government program that even begins to drive a fair bargain is the National Health Service Corps, a small program in which the government pays for medical school in return for a doctor's promise to spend several years in a medically needy area for around $30,000 a year.

The major objection to making students pay the full cost of medical education is that only the sons and daughters of the rich could then afford to become doctors. This is a compelling argument. That's why completely free medical education is the answer. It will allow even the poorest student who's qualified to afford school, while freeing everyone from having to worry about becoming rich later to pay off their loans.

Paying the full bill for medical school will only cost an additional $150 million a year, and it would give the government effective control over the nation's next generation of doctors. The benefits go far beyond reducing physicians' earnings and their over-treatment of illness. Primary care physicians are scarce in many inner cities and rural areas; through a National Health Care System the government could direct badly needed doctors to these areas. Likewise, students could be discouraged from entering oversubscribed specialties. A final advantage of nationalizing medical education is that the government can make it far more accessible to those who've demonstrated intelligence and competence in related health care fields. In the current system, even the best nurses still have to start over again and take four years of medical school to become doctors.

Lessons from Hawkeye

If the term "socialized medicine" hasn't come to your mind by now, you're probably still filling out your citizenship papers. This is the term usually applied—pejoratively—to a system of government salaried doctors, even though such a medical system already exists in America and is jealously

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defended by such bedrock conservative groups as the American Legion and the Veterans of Foreign Wars: the VA hospital system.

A more specific objection to a system of salaried doctors is that it destroys one's freedom of choice in choosing a physician. The argument is a curious one since this much-vaunted choice doesn't really exist right now. True, most Americans now have personal physicians, who also happen to be the doctors least likely to do them any harm. But come down with a serious illness and the specialist you probably see won't be one you know, let alone one you select. Your GP most likely will have recommended him, perhaps because he's a golfing partner or maybe because the two have a formal referral arrangement. In the case of a surgeon, you may first lay eyes on him right before he administers the anesthesia—and then he might step aside and let a resident do the actual cutting.

Of course, there's absolutely no reason a National Health Care System can't let people choose their primary physician, which is how England's system works. But it's also important to realize that freedom of choice is a notion most Americans are willing to trade away if they get something meaningful in return—like cheaper health care. Last year a *New York Times* poll asked 1,530 Americans, "If it would reduce the cost of health care, would you be willing to go to a clinic where you could be assigned an available doctor instead of going to see your own private doctor?" This question strikes at the very heart of the rationale behind fee-for-service medicine—and by a 50-42 percent margin respondents said they'd be willing to do so.

The more serious objections to a National Health Service are practical, not ideological. People rightly fear that such a system might become another unaccountable bureaucracy that wastes money and protects the incompetent.

Fortunately, there are several models for how a National Health Care System could avoid this. One is the U.S military health care system. It may initially sound like a joke to explain this system by reference to a popular television show, but those familiar with military medicine know that M*A*S*H, for all its artistic licenses, captures its most important elements. The doctors in M*A*S*H are constantly clashing with the bureaucrats, who by virtue of their rank are nominally the doctors' superiors. Yet seldom does the bureaucrat interfere with the doctors' work, for the simple reason that he knows his own superiors are judging him primarily on whether his doctors perform. Captain Hawkeye Pierce knows that he can be brash and even insubordinate in taking on the bureaucracy. Hawkeye has this freedom because he knows that in this system, talent amounts to power. It is not unlimited

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power; Hawkeye in turn depends on the bureaucrat for such things as supplying him with competent staff and keeping his operating room properly equipped. But as long as Hawkeye performs, he has a certain immunity from the petty turf battles that characterize so many bureaucracies. This gives him time to focus on what he really wants to do: save lives.

Another model is provided by the State Department's foreign service. Like the military, it operates according to an "up or out" principle: those officers who do not meet certain performance standards are weeded from the ranks. Problems certainly exist with the system; for example, there is no clear-cut standard on which to base ultimate rewards, so obedience is sometimes rewarded more than careful, objective analysis. Officers also may wait as long as two decades before getting a position of real responsibility. Nonetheless, a National Health Care System could avoid some of these problems. By the very nature of their work, doctors have substantial responsibility from the very beginning. More important, while it may be difficult to tell whether a foreign service officer correctly assessed a country's economic problems, a surgeon's performance is grounded in such concrete indicators as the frequency of post-operative complications and mortality rates.

A Confederacy of Credentials

Fear that a government health care system will inevitably become an unaccountable bureaucracy also implicitly assumes that the existing system is largely free of such defects. Yet a close look at a typical American hospital reveals bureaucracy run amok.

Administrators typically shuffle from one hospital to the next, aided by an informal old-boys network; assistant administrators often get $40,000-a-year jobs purely on the basis of a master's degree in hospital administration. On the ward level it's even worse. There are now more than 125 recognized "health occupations," including at least four kinds of nurses (nurses aides, licensed practical nurses, registered nurses, and nurse practitioners). The titles aren't as important as what lies behind them: educational requirements, accreditation committees, certification exams, and, in some cases, state licensing boards. The result is dozens of jobs that hard-working and competent people could fill, but which are denied them because of requirements bearing little relationship to the actual task. For example, in many hospitals a "respiratory therapist" needs two years of special education, even though the job consists largely of administering oxygen and monitoring medical equipment.

Hail Britannia

A final criticism of a National Health Service plan comes by way of analogy. Britain has a similar system, and it has come under fire recently as that country's debilitated economy forced large budget cuts and layoffs. Waits for some elective surgery now exceed two years; as anyone with a ruptured disk knows, that kind of wait can be particularly painful.

These are serious problems, but hardly insurmountable ones. Paying for a National Health Care System can be done through an income tax surcharge earmarked specifically for health care, which would prevent Congress from raiding the fund if the Pentagon needed a quick $10 billion to pay for its latest cost overrun. Simultaneously, Medicare withholding taxes and private insurance payments would be eliminated and returned to taxpayers. Managers of the system could decree that waits for non-cosmetic surgery not exceed a few months. As a check on quality control, it would also be wise to follow the British example of allowing a few private doctors and hospitals, which would provide a spur to make the new system more accountable to patients' needs.

But the final reason for nationalizing our health care system is the most compelling one, and it's also in keeping with a long-established *American* tradition. Think of all the other occupations that directly protect our lives and safety—policemen, firemen, soldiers, even air traffic controllers. All of them work directly for the government. When your home catches fire, does it matter to you which fireman pulls your child from his burning bedroom? When a robbery is in progress do you ask specifically for Officer Jones to help you? Of course not. Our lives and safety are so important that such services have traditionally been kept separate from the marketplace and those motivated by private gain. That's because our need for these services is so great that their providers possess the power to blackmail us, to force us to accept the terms they dictate to us because they know we have no other choice.

That's exactly what doctors and the American medical system are doing today. Up until now, it's been easy to ignore the costs, as they've been hidden largely in insurance payments or our Social Security taxes. Many also have been lulled into thinking that it's impossible to spend too much on health care—just as others have always insisted that it's impossible to spend too much on national defense. Both views are wrong; both have actually weakened this country rather than strengthened it. And unless we begin remedying the outrages being committed in the name of keeping America healthy, the patient may never recover. ■

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THE HEALTH RACKET

It's an old story—how the American Medical Association and other groups have practiced professional birth control, fixed prices, and otherwise restricted competition in order to maintain their members' huge salaries. What's new is the emerging challenge to this way of doing business. The profession is running scared. Surpluses of doctors are developing in many areas (the same areas, by the way, that statistically show the greatest amount of surgery), and visits to physicians are down 14 percent since 1978. Many people are turning to alternative approaches like holistic medicine. In 1980, for instance, the Arizona legislature established a second medical licensing board granting professional equality to homeopathic and holistic physicians.

But the biggest threat of all comes from within—from formerly docile groups like nurses, lab technicians, nurse-midwives, nurse-practitioners, and physician assistants now tugging at their leashes. The abuses against them are legion.

In Nashville, Tennessee, for instance, two nurse-midwives set up practice in 1980 and applied for admitting privileges at the Hendersonville Community Hospital, where their backup physician was on staff. The application was rejected when six pediatricians at the hospital said they wouldn't examine any babies delivered by the midwives. Other hospitals in town followed suit. The doctor who helped the midwives found his malpractice insurance revoked by an insurance company dominated by physicians. He later testified before a congressional hearing: "The pressure was overwhelming. . . . statements by physicians that they would ruin me, lack of referrals, silent treatment at meetings. . . . I have elected to move to South Carolina."

In Alabama, where doctors' incomes are higher than the national average, the enforcement of "professionalism" is even more chilling. In 1977, the Alabama Nurses Association tried to establish rural clinics staffed by nurse-practitioners and nurse-midwives in back-country areas where MDs are very scarce (Alabama has 50 counties without an obstetrician). The State Board of Medical Examiners immediately prohibited nurses from working in the clinics if a doctor was not physically present. Because most of the clinics were located far from any practicing physician, nearly all were forced to close, thus depriving the rural poor of any medical help closer than several hours away.

The Federal Trade Commission, having documented scores of cases like this, first got involved in antitrust action against the medical profession in 1975, when it filed a complaint against the American Medical Association and two Connecticut medical societies. Claiming that "Principles of Medical Ethics" restrain trade and fix prices in the same way as bar association fee schedules, the FTC finally prevailed in the Supreme Court in March 1982. The decision allowed physicians and other health care professionals to advertise their prices, training, types of services offered, ability to speak another language, and willingness to take Medicare and Medicaid payments in full settlement of the bill.

Under the chairmanship of both Michael Pertschuk and James Miller (the latter a Reaganite who sides against the doctors), the FTC weighed in heavily on behalf of competition. It prohibited the Texas Dental Association from boycotting dental insurers who were trying to hold down costs. It forced the Michigan State Medical Society to stop conspiring with its members to force increases in payment levels for Medicaid reimbursement—a practice that amounted to nothing less than extorting the government. It compelled the American Society of Anesthesiologists to end a ban on its members practicing on a salaried basis. It ended a boycott by the Medical Service Corporation of Spokane, Washington, against physicians working for a health maintenance organization.

In the spring of 1982, the medical profession staged its counterattack: a bill before Congress allowing doctors to escape from FTC jurisdiction under a so-called "learned professions exemption." The doctors insisted that the states could do the regulating, but because no one would buy that argument, they tried another one: the possession of an advanced degree was evidence enough that they could look after themselves. Figuring the meritocratic approach might not do the job, they tossed in $2.5 million in PAC contributions, the second largest amount given by any interest group last year.

At the end of the lame-duck session, it appeared the doctors would prevail. But then Warren Rudman, a freshman Republican from New Hamphsire who accepts no PAC money, went to work on his colleagues. "I get excited when I see someone trying to perform a frontal lobotomy on the free-enterprise system," Rudman said, noting that the doctors waiting outside the chamber to lobby were making their first house calls in years.

In an inspired moment, the Senate went along with Rudman, dashing every doctor's hope for that third Porsche. With the opening of the new session, the profession is fighting even harder for its exemption But the edifice of anti-competition may be beginning to crumble. The FTC battle is the first of many in what promises to be a long war.

—Harris Coulter

Harris Coulter is the author of Divided Legacy, *a three-volume history of medical thought.*

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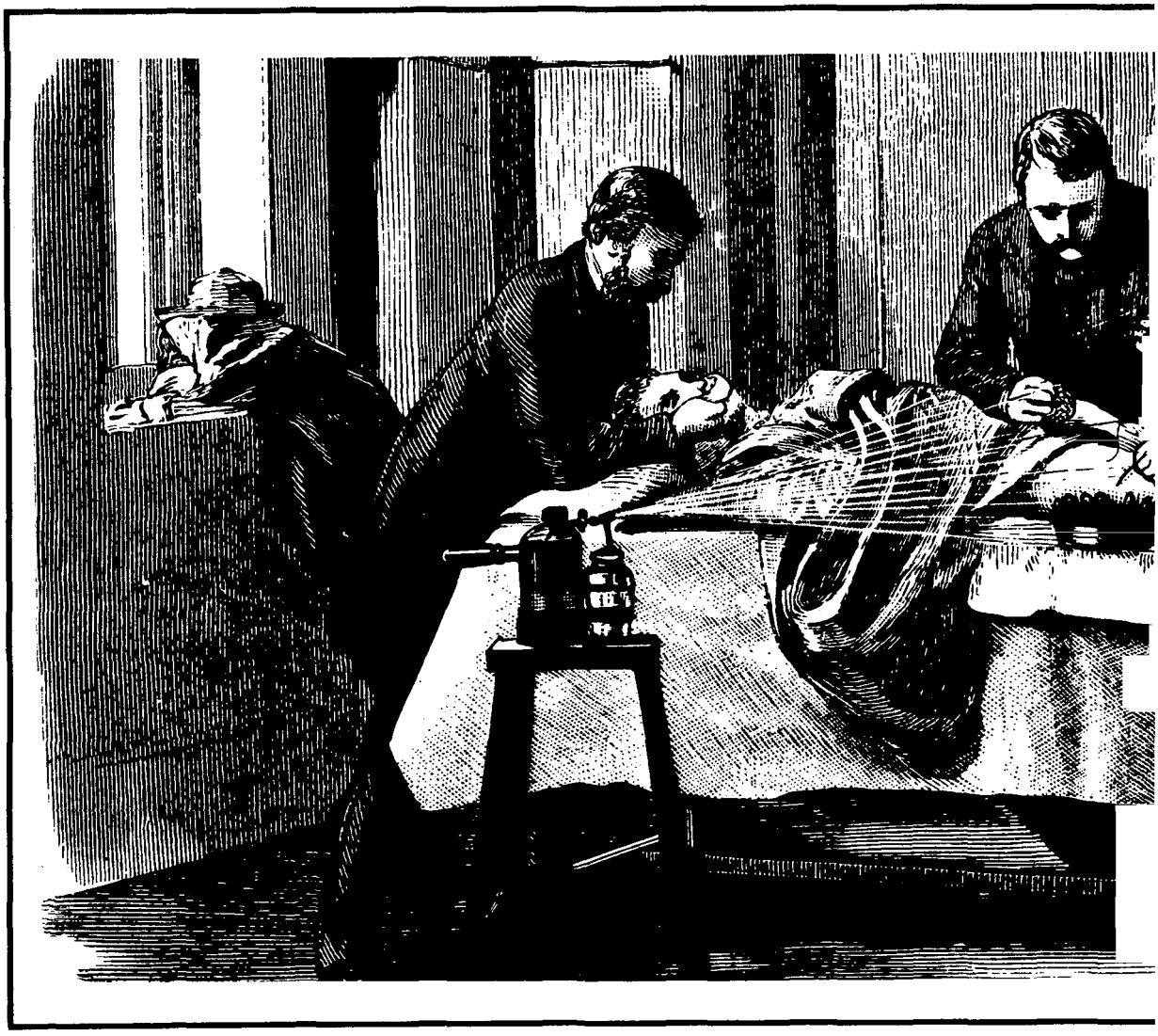
Accidents Will Happen

Now you're thinking like a doctor . . . .



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By Toby Cohen

Courtesy of National Library of Medicine

Complaints about modern medicine have a way of continually resurfacing: Too many doctors order unnecessary tests and perform unnecessary surgery. Doctors make too much money, and many reflect the bedside manner of an automatic banking machine. Notwithstanding malpractice suits, incompetent doctors are difficult to ferret out and mistakes are difficult to identify.

These are the cliches you see on shows like "20/20" or arrive at through experience. Like many cliches, there is much truth in them. The unnecessary surgery is partly the result of pressure from patients, who believe you can never have too much doctoring, and partly the result of this country's medical structure, which pays doctors for each procedure, whether they perform it themselves or delegate it. Given health costs, this incentive makes it easy for doctors to earn big money, and the big money in turn helps explain why so many banking machines are attracted to medicine.

As for the large number of mistakes—even the AMA says 10 percent of all doctors are incompetent—well, that's a little harder to explain. Other than human nature, one possible culprit is the kind of medical education that takes place during residency. This is the educational system that allows lifesaving skills to be passed on from generation to generation. It is also the system that can kill patients.

Doctors of all ages make mistakes, and in many cases talented residents are more skilled than their elders. But the problems associated with residency are worrisome. In 1978 the Medical Practice Task Force of the New York State Assembly concluded that 85 percent of all surgery done on private patients in teaching hospitals was performed by residents—not by the surgeons engaged and paid by the patients. And in many of these operations first-year residents did the actual cutting, with little and sometimes no supervision by the surgeons the patients had hired. Think about that. These are private, paying patients, not the Medicaid patients who some doctors still look down upon as "charity" cases.

Toby Cohen was project director of the medical practice task force of the New York State Assembly.

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The truth is that in most hospitals, residents assume the role of the patients' primary physicians—even in complicated and life-endangering operations. If you don't believe me, consider the words of Dr. Keith Reemstma, chief of surgery at Columbia Presbyterian Hospital in New York. Reemstma writes:

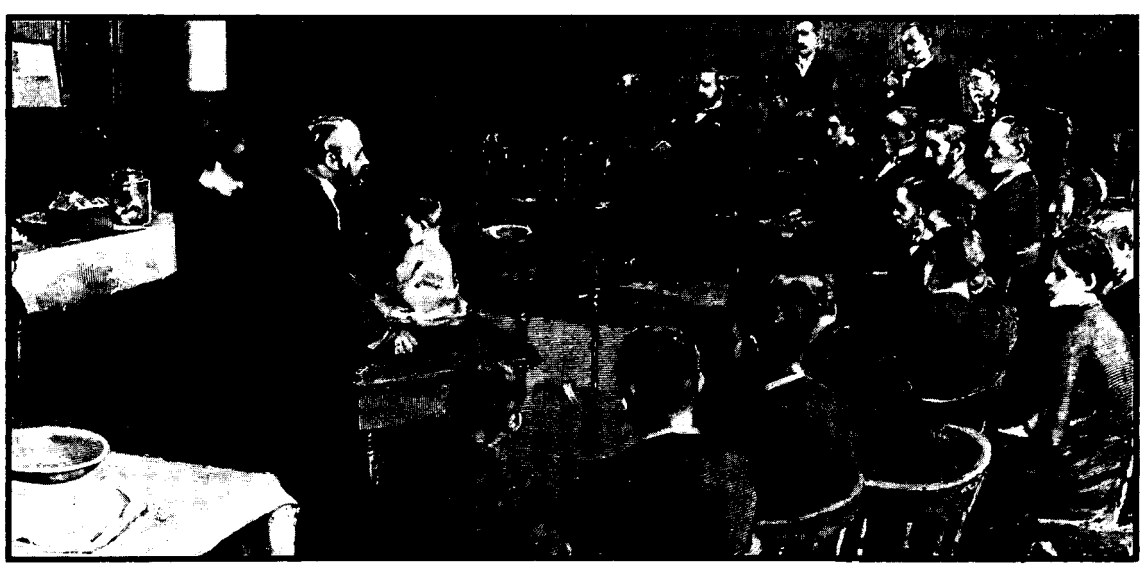
"The resident is involved in the care of a large number of private patients . . . in fact in a high proportion of these operations, the resident was the operating surgeon. For example, the resident was the surgeon in 65 of 185 cardiac operations which involved extracorporeal circulation; he was the operating surgeon in 19 of 38 operations on the heart which did not involve extracorporeal circulation. He was the operating surgeon in more than half of the 25 patients treated for coartation of the aorta."

Most doctors obviously see nothing wrong with this, since they allow it to happen. They insist that patients actually get better care when residents participate in a major way and that this holds true whether residents are treating psychotics, prescribing medication for major illnesses, or performing surgery. Teachers of surgery, for example, argue that a younger person is usually more dexterous. Good hands, they claim, more than make up for the good judgment that results in large part from experience.

Yet in Dr. William A. Nolen's *The Making of a Surgeon*, the author's description of his first major surgical procedure as a resident (a routine appendectomy under the supervision of a more experienced physician) would seem to suggest the contrary. Nolen began the operation by pressing down too hard with his scalpel, cutting too deeply. He forgot how to tie knots to seal off blood vessels, and at one point tied the end of his rubber glove into the wound. He had trouble finding the appendix. When he did find it, he cut it off clumsily, undoing the knot in it. Finally he let the appendix pop back into the abdomen, causing an infection. The patient, not surprisingly, had a long and complicated convalescence. One doubts that if Dr. Nolen performed a routine appendectomy today he and his patient would have the same troubles.

Are residents any less competent than regular physicians? Do they cause more serious injuries and accidental deaths, either because they're less able or not adequately supervised? Given the obvious limitations of anecdotal evidence like Nolen's, these are questions that beg for a comprehensive study. Yet a thorough search of recent medical research reveals only one recent study directly comparing the performance of residents and doctors. And though this study (conducted in Miami) suggests that the incidence of death and complications rises dramatically when residents play a major role in surgery, it was only a small, preliminary study that was never published.

Actually, the lack of evidence on this subject is telling in itself, for it dramatically illustrates the profession's almost nonchalant attitude toward medical error. Unnecessary death aside, it has been estimated that bad medical care initiated by doctors costs Americans about $15 billion a year in reparative medical treatment and lost wages. And many of the operations that cause these problems are unnecessary in the first place. A May 1977 investigation by the House subcommittee on oversight and investigation concluded that 11



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Doctored Lessons

Teaching doctors how to be unaccountable for their mistakes isn't the only inadequacy of medical education. Here are a few other things doctors learn:

How to View Human Beings As Boring. Almost all medical students are educated exclusively at hospitals, where 90 percent of their time is spent with seriously ill patients requiring high-technology care. This holds true for most residents as well (who spend three to five years in special training after four years of medical school). Yet when these same doctors go into private practice, most of the patients they see will have no need for CAT scans or even hospitalization. They actually only need an office examination—and the reassurance and understanding of an authority figure who will tell them to take a few days off from work to get some rest.

The doctors, whose training consists almost entirely of chronically ill patients and life-saving emergency procedures, are simply unprepared for these less interesting, less lucrative, everyday people with whom most will spend the rest of their careers. The lack of emphasis on such care in medical education doesn't do much for developing human sensitivity—or for the preventive health measures that could make hospitalization unnecessary.

This parallels the likely conclusions of the first overall review of medical school curriculum in 50 years. Steven Muller, president of Johns Hopkins University and Hospital and chairman of the committee handling the review, said recently that the panel's experts are concerned that "total immersion" might be "dehumanizing" and may lead to a "fascination with technology that makes the device more important than the patients."

How to Feel Entitled to Be Rich. Medical students and residents work so hard—and they stay up all night so many times—that they begin to expect some payoff for their suffering. Perhaps each student should simply be given a Porsche on finishing residency—it would be a lot cheaper than 30 years of six-figure incomes. A more practical solution is to make each senior doctor handle the night shift just one night a year. That's all it would take to end a system where residents who haven't slept in 24 hours perform major surgery, prescribe unnecessary drugs and tests (which is a very common hedge against the lack of confidence in one's judgment that results from lack of sleep), and crave to compensate for the loss of "the best years of their lives" with outlandish incomes.

How to Make Money on the Golf Course. With the passage of Medicare and Medicaid in 1965, doctors discovered—and passed on to their juniors—a new way to cash in. Senior doctors soon found that they could collect their Medicare and Medicaid fees even when their residents did the work, giving the senior physicians the supernatural ability to be in many places at once.

At any given time, senior physician X can be operating on his private patient, while down the hall a resident is performing surgery on one of the senior surgeon's Medicare or Medicaid patients—surgery for which Doctor X would collect another fee on the basis of having peeked in the room for a moment. Or for routine surgery with little malpractice risk, Doctor X might choose to be out of the hospital altogether. While residents operate on *both* patients, he can be in his office earning other fees—or starting out on the back nine.

How to Guard the Subsidy Secret. It used to be that residents lived at the hospital where they worked (hence the name) and got subsistence pay. Now they make better-than-decent wages—about $20,000 to $25,000 a year—and usually live in homes away from the hospital. The bill for their medical education is picked up by the rest of us through higher insurance premiums. The residents' salaries are factored into the premiums in the same way as hospital beds, equipment, nursing services, and so forth. Meanwhile, the medical schools themselves benefit from billions in government grants. At many schools tuition covers only a quarter of all medical school costs.

Of course, that's the last thing doctors want revealed. If the public knew to what extent it subsidizes doctors—and how little it gets in return—the response might be radical. In exchange for a medical education, doctors could be forced to participate in public health programs or to locate, at least for a few years, in parts of the country where doctors are scarce.

The terror this prospect inspires is one reason doctors tend to be so politically conservative. The best defense against paying back some of what they owe is to keep the free enterprise rhetoric flying high. As long as the public doesn't know they're on the dole, physicians can assume the lifestyle they have come to expect. By the time they emerge from residency, most doctors have learned this lesson well.

—*T.C.*

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percent of all surgery performed in the U.S. each year falls into this category, much of it performed by young residents eager to gain "experience."

One might have expected that the medical profession would be hard at work trying to discover the cause of all these mistakes and figure out how to lessen them. Don't hold your breath. Most doctors seem to feel that mistakes are merely random events that are bound to occur if you practice enough medicine. They are acts of God, not of men, and as such are not representative of a physician's judgment or skill. Physicians feel that the best way to deal with their mistakes, both for themselves and their patients, is to admit to them only in their peer-group reviews—doctors in the same field who meet periodically to discuss the deaths and complications. In *Forgive and Remember*, Charles Bosk quotes a senior physician at one of these meetings:

"This case is unfortunate and represents a want of supervision on my part. Clearly, this is a simple error of technique that could have been avoided if the resident had had proper instruction. The insertion of a subclavian catheter can be a very tricky business. It requires poise and confidence. It should be carefully supervised. Unfortunately, it is one of those procedures that we are least likely to monitor. All too often, we instruct our residents to insert subclavian catheters as we walk off the floor on our way home for the night. We should not—as I did in this case—do this. We should make sure our subordinates are properly equipped to do this, and we should be there to provide help until we are confident our house staff can do these things on their own. It is our responsibility to be available and provide instruction. We cannot always count on our house staff to properly assess the trickiness or techniques." Bosk also quotes another doctor who admitted to committing "surgical immorality."

The profession's attitude perhaps is most dramatically illustrated by an incident recounted in 1972 in a trade publication, *Medical Times*. A gynecologist had removed what he thought was a uterine tumor, only to discover instead his patient had been three and a half months pregnant. The doctor apologized to the husband for his mistake, and the husband quite understandably sued. (This did not ruin the doctor's career, it only raised his premiums.) The lesson to be drawn from this, *Medical Times* noted, was that doctors should never allow "regret over mistaken judgment" to lure them into admitting a mistake to those who are affected by it.

This nonchalance toward mistakes starts from the moment that a prospective doctor enters medical school. In Europe, admission is relatively easy; mediocre and incompetent students are weeded out by stiff evaluation. By contrast, in the United States, competition for admission is intense: less than half of all applicants gain entry. But once in school, the assumption is that almost all will become doctors. Only the most egregious of mistakes will qualify a student or resident for dismissal. That explains why the attrition rate in medical school is less than 2 percent, and why, once out of school, doctors steadfastly—and so far successfully—have managed to resist all attempts to require periodic relicensing on the basis of performance evaluations or examinations.

Even in extreme cases, where a doctor is so blatantly incompetent that many patients are seriously injured or killed, about the most severe punishment is that colleagues who are aware of the doctor's reputation no longer refer patients. For the guilty party this might mean nothing more than moving to a different state, where relicensing is in most cases unnecessary. As Spencer Klaw points out in *The Great American Medicine Show*, many state medical societies investigate doctors only when they receive patient complaints. For the most part, doctors only rat on each other when paid huge sums to be expert witnesses in malpractice suits.

Of course, in any line of work people are reluctant to criticize incompetent colleagues, if for no other reason than they're usually nice people. But only in the medical profession has such reluctance been elevated into a badge of honor. Some codes of professional ethics, for example, *prohibit* doctors called in on a consultation from telling patients things that could discredit a colleague. When 214 doctors were asked in a 1970 survey about the hypothetical case of a surgeon who'd mistakenly removed a normal kidney instead of the diseased one, guess how many said they would be willing to testify against him? Less than one third.

There is nothing wrong with the residency system per se—just as long as those who benefit from it do not do so at the unjustified expense of the public. And there isn't anything wrong with residents performing complicated treatment or operations under proper supervision; after all, there's always a first time in every job. But this doesn't excuse the fact that mistakes almost always go unpunished or altogether unacknowledged. It's only natural that American medical schools and teaching hospitals think they can take all students they admit and transform them into competent, caring doctors. But they can't, and the sooner they learn that, the healthier we'll be. ■

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The Wards Are Paved With Gold

Photo By Thomas P. McGinley

By Teresa Riordan

If Dustin Hoffman's cocktail party adviser from *The Graduate* were to lean over and whisper that sweet word in his ear, it would no longer be "plastics." Plastics are dead. If he really wanted to avoid swimming in his pool all day and other distractions as well, he would listen to a new magic word for investors: "hospitals."

The for-profit hospital industry, if you can believe it, grew faster during the 1970s than the computer industry. Last year, the top for-profit hospital chains—Hospital Corporation of America, Humana, National Medical Enterprises, and American Medical International—watched their stocks rise an average of 30 percent in the midst of a deep recession. This was a disappointment to hospital investors: In 1980, their stocks surged well over 100 percent. Wall Street analysts say this year and next should continue strong. The hospital business is so rosy that some chains, namely Humana, got out of the immensely profitable nursing-home industry to go into hospitals.

The United States has three kinds of hospitals: for-profit (also known as proprietary), nonprofit (also known as voluntary), and public. Until about 20 years ago, for-profits, like the two other types, were community-based and individually operated. Now the for-profits are chains, and in recent years they have gobbled up many nonprofits and public hospitals. Closings of nonprofits have doubled since the 1960s and the number of public-hospital beds has dropped 22 percent in the past 10 years.

The recent killing in hospital investment has several explanations. The creation of Medicare and Medicaid systems in the middle 1960s dramatically expanded the business of *all* hospitals, for in its eagerness to ensure that the old and poor got care, the government was willing to pay hospitals whatever they claimed as their costs. (Health insurers like Blue Cross, created and long dominated by the hospitals themselves, had traditionally done the same.)

Hospital reimbursement works just like military contracting; it's "cost-plus," which means that hospitals are reimbursed for whatever they spend, even if it is totally out of line. (See "Radical Surgery," page 26). Medicare and Medicaid increased the total number of *guaranteed* fee reimbursements, so the question became, who provided the most in total guarantees? And as Medicare and Medicaid in the seventies became less and less generous, the answer became the private, third-party insurers, who perpetuate lavish reimbursement by passing along the costs through higher premiums.

Teresa Riordan is on the staff of The Washington Monthly.

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The way to make big money in the for-profit game is to fill as many beds as possible with privately insured patients. And the reason the for-profits are able to do it so well is a federal law called the Hill-Burton Act. The act requires hospitals that received Hill-Burton funds—virtually all public and nonprofit hospitals—to accept and treat nonpaying patients. For-profits, which never qualified for Hill-Burton funds, have no such federal obligation.

Nonprofit and public hospitals accuse for-profits of cream skimming—taking the bulk of lucrative, privately insured patients (private insurance pays on the average 25 percent more than government reimbursement) while dumping on other hospitals the Medicaid cases (which are partially financed by the states and notoriously the lowest on the reimbursement scale) and the medically indigent (those who earn too much to qualify for Medicaid but not enough to pay for health care). This is a charge that for-profits are hard-pressed to deny. After all, they didn't become billion-dollar companies by doling out charity care. "Health care is a necessity but so is food," says Henry J. Werronen, a senior vice president of Humana. "Do you know of any neighborhood grocery store where you can walk out with $3,000 worth of food that you haven't paid for?"

The long-term effect of cream-skimming isn't too hard to figure out. As for-profits skim the high-paying private patients from the nonprofits and publics, the latter naturally have a higher percentage of Medicaid cases, from which they get less reimbursement, or charity cases, from which they get no reimbursement at all. This setup drains the already anemic philanthropic resources of publics and nonprofits and often forces them to close or sell out to for-profits.

Hospital Cost Obtainment

For-profits, of course, will admit just about any emergency case, in part because they can't tell until they've performed a wallet biopsy whether the patient can pay. If he can't, he's usually shipped off to the nearest public hospital. Case in point: In the summer of 1981, Humana's Las Vegas Sunrise Hospital emergency room admitted a former parking lot attendant who was bleeding internally. An internist worked for three hours on the man until his condition became stable, at which time the good doctor found out the bleeding man had no insurance. The indignant internist immediately sent the indigent patient to a county hospital four miles away—a move that most likely expedited the man's death the next morning. "My conscience is 100 percent clear. . . . These freebies cost $2,000 or $3,000 a day," the doctor was quoted in *Fortune* as saying. "Who's going to pay for them?" Certainly not the for-profits. But wallet biopsies are just one of the ways hospitals pare costs to pump profits.

Most for-profit chains build medical staff office buildings adjacent to their acute-care hospitals and rent space at give-away rates to doctors, who in turn refer lots of privately insured patients—because of proximity or, perhaps, a sense of obligation—to the hospitals that own the office buildings. Hospitals earn up to $100,000 per doctor each year from this setup. Humana, in addition to the office space, offers a guaranteed income of $60,000 to its first-year doctors, making them even more inclined to send business the for-profit hospitals' way.

Hospital chains also have a demographic strategy. Most chain-owned for-profits are located below the Mason-Dixon line, in the unregulated sunbelt states, where they can charge privately insured patients whatever the market will bear. They also concentrate in suburbia, away from the urban poor and close to young mothers with lots of babies and families that are likely to be privately insured and in want of elective surgery that yields high profits.

It's not hard to believe the for-profits' claim that there are cost efficiencies, such as bulk buying power and specialty and equipment sharing, that come with chains. In fact, nonprofit and public hospitals could learn a lot from them about economizing. (They could also lessen the exorbitant salaries they pay administrators.) But don't forget that the for-profit hospitals' cost savings aren't passed on to the consumer. According to a 1981 study by Lewin and Associates, a Washington-based consulting firm, hospital costs are actually lower at nonprofits—hospitals that shoulder a larger part of charity care and also finance teaching and research. (For-profits point to their cost per admission, which is indeed lower than that of nonprofits and publics, as proof of cost efficiency. Critics, however, charge that this is, at least in part, further evidence of cream skimming, meaning that for-profits attract patients whose hospital stays are short but cost intensive.)

This helps explain why for-profit chains don't support any kind of hospital cost containment, though their PR people feverishly crank out press

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releases proclaiming they do. In fact, the Federation of American Hospitals, the for-profit hospital lobbying group, was arm-in-arm with the American Hospital Association and the AMA in their successful battle against Carter's 1977 cost-containment bill. The FAH wasn't content to just throw a lot of money at the politicians it was lobbying. (The FAH PAC spent $152,272 on congressional campaigns in 1980.) It also sent a letter to its member proprietary hospitals, which in turn were to send the letter to patients: "We think the plan is unworkable and, more importantly, will only be effective at the expense of the quality of care we can provide . . . . Repairs and maintenance might be neglected. The emergency room may have to be closed."

This is a variation on a familiar ploy used by institutions faced with budget cuts. At the municipal level, this magazine calls it the Firemen First Principle. A mayor faced with cutbacks says he will ax firemen and police first, with the understanding that funding for these will be quickly restored; meanwhile the administrators and systems analysts all keep their jobs. Hospitals fight cost containment in the same way, claiming essential services will go first. Needless to say there is plenty to cut from feather-bedded hospital administrations and unnecessary equipment, not to mention returns to stockholders.

When they successfully lobbied the cost-containment bill to death, the AMA, the FAH, and the AHA came up with their own plan to control costs, called Voluntary Effort, which was just what the name implies. VE had to have been either a cruel joke to the health-care consumer or a miserable flop on the part of health-care providers. Last year hospital costs went up 15.5 percent—three times the declining overall inflation rate.

Some members of the for-profit industry seem, well, gleeful about health-care inflation. Take, for instance, a presentation made last year by John C. Bedrosian, executive vice president of National Medical Enterprises:

"This year, Americans will spend over $300 billion for health care. That's about one dollar for every ten dollars spent or 10 percent of the gross national product. It's also about 13 percent more than they spent for health care last year. And the spiral is continuing . . . . The government estimates that by 1990, given no change in the reimbursement system under which we operate, total expenditures for health in this country will grow from $300 billion this year to $821 billion.

How To Make The Poor Die Elsewhere

If you're an administrator at a for-profit hospital and wonder how you can discourage those shabby, uninsured patients from affecting your profits, the American Hospital Association has some good advice for you.

In a candid paper issued in 1981, the AHA provides several options for convincing the poor to get sick elsewhere:

"Regarding the emergency department, a hospital could initiate several actions to demarket its services to Medicaid or non-paying patients; these include:

a. allow lengthy waiting time to develop in the emergency department for non-urgent patients;
b. require cash payments or proof of insurance before rendering care to non-urgent patients;
c. provide little or no parking for patients coming to the ED [emergency department];
d. screen all non-urgent patients and refer poor patients to other providers;
e. transfer poor trauma or critical care patients after initial stabilization to other providers;
f. provide an unlisted telephone number for the ED;
g. segregate the waiting areas for paying and non-paying patients; in the non-paying patient area, provide few seats, poor lighting, few signs and no food or drink;
h. segregate treatment areas with less staff and equipment in areas for non-paying patients, in other words develop and offer a two-class system of care based on patients' ability to pay."

The AHA goes on to recommend that the hospital find out which services are most used by the non-payers—suggestions include pyschiatric, alcohol, and drug abuse services—and eliminate them.

As for ambulatory care, meaning outpatient care, the AHA offers several helpful hints such as "relocate [the] program away from the hospital's main campus . . . the hospital could locate a primary care program in a low-rent, no-frills facility with few patient amenities such as nice furnishings, ample waiting areas, etc."

—Tom Ricketts

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"That's how large this business is. And that's the kind of business National Medical Enterprises is in."

The for-profits have carved out a wonderful public relations position on the issue of "prospective" payments, a government plan that's under way to make hospitals stay within a specific cost margin for particular procedures and operations. This is the direction sensible (if mild) reform is headed, and the for-profits are applauding it all the way.

There's only one catch. Congress's prospective payment plans apply only to Medicare and Medicaid. Hospital costs paid by *private* insurance will remain unchecked and continue to skyrocket. That means for-profits will maintain their primary source of profligate income—and their advantage over nonprofit and public hospitals will grow even further.

But what about taxes? Aren't the taxable for-profits at a disadvantage here since nonprofits pay no taxes at all? Not really—especially after the Reagan administration's "Economic Recovery Act of 1981." The liberalized depreciation rules must have thrilled the accounting departments of the for-profit chains. The act reduced the life of new hospital assets from 23 years to 9 years, increasing annual depreciation about 34 percent. When combined with the fact that for-profits can borrow money—and nonprofits can't—the tax disadvantages shrink into insignificance. Especially when you consider that (in theory, to compensate for the costs of raising capital) the government reimburses for-profits about 4 percent more for Medicare and Medicaid reimbursements than it does other hospitals.

Something for Nothing

When chains were starting, they acquired almost exclusively other for-profit hospitals. Today the trend is to acquire nonprofits and, more important, public hospitals—hospitals that until now had an obligation not only to admit the poor but, when necessary, to give them free care. Last year, all Hospital Corporation of America's acquisitions were government-owned or nonprofit hospitals.

The danger of the for-profit acquisition trend is best seen in Hill-Burton hospitals, nonprofit or public hospitals that were built or expanded since 1946 with government funds—with the stipulation that the hospitals provide community service and free care. This stipulation ends, however,

There's Gold In Them Thar Kidneys

The competition among types of corporate medical care is extraordinarily sensitive to the vagaries of politics. Changes in the details of reimbursement policy have immense implications for the profitability of different types of organizations. Highly organized lobbies may be able to recover through the manipulation of public policy what they could not otherwise achieve. Once powerful organizations become established, they find the political means to sustain themselves.

Kidney dialysis centers provide a particularly graphic example of the rise of a private industry in response to public financing and then the manipulation of public policy by the industry it originally created. In 1972 Congress extended Medicare to one group of patients under age 65: the victims of end-stage renal disease. At the time, about 9,000 patients were receiving long-term renal dialysis, 37 percent at home and almost all through nonprofit programs, which were attempting wherever possible to arrange kidney transplants as a more permanent solution.

By 1976 the proportion of home dialysis dropped to less than 10 percent, as dialysis centers proliferated. According to a 1975 congressional study, dialysis then cost between $4,000 and $20,000 at a clinic, and about $30,000 at a hospital. Congress had been told in 1972 that four years later the cost of the program would be $200 million; it turned out to be about twice that amount.

It became apparent that Congress had helped create the problem by providing incentives for institutional dialysis to both doctors and patients. Apart from deductibles, the government paid the entire cost of treatment at a clinic or hospital but only about 80 percent of the cost of treatment at home. It had also encouraged doctors who specialized in the field to set up profit-making centers to which they could refer their own patients. Opponents of the centers pointed to the huge disparities in rates of

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when the for-profits get into the game. If a Hill-Burton hospital is taken over by for-profit management—presto!—the free-care requirement no longer applies. The government conjures up a dollar amount from a complicated formula and that's considered fair repayment of the money it supplied. About 75 Hill-Burton hospitals, most of which have been sold to for-profit chains, are currently on the government's repayment list.

Why aren't nonprofits and publics allowed to buy out of their Hill-Burton responsibilities? Because the government believes some hospitals should serve the poor. But once a change in ownership takes place, this responsibility is miraculously lifted—even though the hospital sits in the same community it always did.

And for-profits are perfectly happy to "pay back" money to the government in exchange for the privilege of turning away the nonprofitable poor—especially since, according to a 1982 Inspector General's report, they often pay back little if any of what they owe under Hill-Burton. One ten-year-old Hill-Burton hospital, cited in the report, was sold to a for-profit in 1973. The government has yet to recoup any of the $870,500 in Hill-Burton grants that helped build the hospital.

In December, the Health Resources and Services Administration had a meeting on how to recoup Hill-Burton funds. Someone proposed that instead of having for-profits pay back Hill-Burton grants, they continue under the Hill-Burton obligations to provide community service and free care. Douglas Lewis, of Hospital Corporation of America, objected, saying, HCA is "not interested in that civil rights stuff."

But the for-profits have yet one more advantage—an advantage so overwhelming it's hard to believe. If it's been 20 years since the hospital received Hill-Burton funds, the new for-profit owners don't have to reimburse the government anything for the building of their hospital—and they don't have to accept the community's non-paying patients either.

The 20 years are almost up for many non-profit and public hospitals, and that makes them especially attractive takeover targets for hospital investors. The government, having built the hospitals, can now sit back and watch a private company make money off them—and ignore the purpose for which many of these hospitals were built.

Mrs. Robinson will have to wait. Benjamin has better opportunities. ■

home treatment between different areas of the country. In Spokane, Washington, where the Northwest Kidney Center strongly favored home treatment, 100 percent of the dialysis patients were being treated at home, whereas in Los Angeles, 95 percent of the patients received institutional dialysis. A medical professor from the University of Washington explained that many doctors were reluctant to give their patients the responsibility of self-treatment. "If the physician also happens to own the dialysis center, he's pretty interested in keeping that center full, the motivation is pretty small to get the patients home, and that's essentially what's been happening in Los Angeles County."

In 1976 several Democrats in the House of Representatives sought legislation equalizing government reimbursements for home and institutional dialysis and requiring that by 1980 half of dialysis patients be on home treatment or "self-care" at institutions. However, National Medical Care, Inc., the leading operator of for-profit dialysis centers, weighed into the battle, hiring Reagan's 1976 campaign manager John Sears as its chief lobbyist. On emerging from the House, the 50 percent requirement of home dialysis had become a "goal." When the bill left the Senate, even the goal had disappeared. Congress just expressed its "intent" that as many patients as possible receive home dialysis. "The lobbyists gutted the hell out of [the legislation]," one Social Security official commented.

This kind of conglomerate development may well prevail over the development of comprehensive medical care through HMOs. The industrialization of episodic medicine was not the original intent of the market idealists of the early 1970s who favored health maintenance organizations. Many of them regard chain hospitals and emergicenters as the antithesis of what they had in mind. They wanted corporate involvement to change the nature of health care; it seems more likely, in the foreseeable future, to reproduce the defects of the traditional system on a grander scale.

—Paul Starr

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Reel To Real: Art Imitates Life

The following is a scene from Paddy Chayefsky's 1971 movie The Hospital, starring George C. Scott as Dr. Bock, the chief of medicine. Here he is talking to a chief resident named Brubaker:

Bock: All right, wait a minute. Let me have all that again.

Brubaker: As a matter of fact, Doctor, this is Doctor Biegelman's case.

Bock: Never mind the professional ethics, what happened?

Brubaker: (sighs) I don't know why I'm covering for that sonofabitch in Farkis Pavillion anyway. (sighs and begins his presentation) The patient, a man of fifty-six, was admitted to the hospital ten days ago for a check-up, in good health, no visible distress. We did the mandatory work-up on him. Blood cultures, stool, LE preps, chest, EKG, all negative. But there was apparently some evidence of protein in his urine. I don't know how that sonofabitch in Farkis Pavillion ever found out about it. I assume he had some kind of deal with one of the girls in the lab. Anyway, he turned up the next day, conned the patient into signing an authorization for a biopsy—

Bock: What sonofabitch in Farkis Pavillion?

Brubaker: Some post-grad fellow named Ives. Elroy Ives. I never met him. He's on one of the immunology research programs.

Bock: Are you trying to tell me some post-grad fellow came up here and did a biopsy on the patient?

Brubaker: Yes, sir. He conned Biegelman with that old story about—

Bock: Protein in the urine?

Brubaker: Yes, sir.

Bock: And he biopsied the man?

Brubaker: And he nicked the kidney, and at two o'clock in the morning, they woke up Biegelman because the nurse found the patient in shock. Biegelman called the kidney people for a consult right away. What was there to see? The man was sour and bleeding. We call this fellow, Sutcliffe, and he refers us to a surgeon named Welbeck. . .

Bock: Welbeck! That barber!

Brubaker: You ain't heard nothing yet. So we finally got Welbeck around four in the morning. He said, go ahead. So they laid on the surgery for eight. Welbeck turns up, half-stoned, orders an I.V.P.—

Bock: Without checking for allergic reaction.

Brubaker: Right.

Bock: The patient went into tubular necrosis.

Brubaker: Right. They lopped out the bleeding kidney, ran him back to the room, and we sat around waiting for three days to see how obstructed he was. Fever began spiking like hell, euremia, vomiting, so we arranged dialysis. He's putting out water fine now. But some nurse goofed on his last treatment. A leak in the tube, something. His blood pressure plunged. They ran him right up to C.C.U., checked out vital signs, all normal except he's comatose. That was two days ago.

Bock: In short, a man came into this hospital in perfectly good health, and, in the space of one week, we chopped out one kidney, damaged the other, reduced him to a coma and damned near killed him.

Brubaker: Yes, sir. *A great sad serenity has settled over Bock.*

Bock: (after a moment) You know, Brubaker, last night I sat in my hotel room, reviewing the shambles of my life and contemplating suicide. Then I said: "No, Bock, don't do it. You're a doctor, a healer. You're the Chief of Medicine at one of the great hospitals of the world. You're a necessary person. Your life is meaningful." Then I came in this morning and find out one of my doctors was killed by a couple of nurses who mistook him for a patient because he screwed a technician from the nephrology lab—

Brubaker: Hematology, sir.

Bock: And now you come to me with this gothic horror story in which the entire machinery of modern medicine has apparently conspired to destroy one lousy patient. How am I to sustain my feeling of meaningfulness in the face of this? You know, Brubaker, if there was an oven around, I'd stick my head in it. What was the name of that sonofabitch from Farkis Pavillion again?

Brubaker: Ives, sir. Elroy Ives. Somebody ought to ream his ass.

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What's In A Bill?

If you think there is any logic to how hospitals figure out costs, you're wrong. They charge what they can get away with, and because most people covered by insurance don't bother to scrutinize their bills, they can get away with murder.

Recently a member of the staff of *The Washington Monthly* was hospitalized at two different hospitals. While it's hard to know how much care she got for the more than $19,000 her insurance paid for 16 nights, a series of tests, and surgery, the comparative costs of some of the smaller items stand out.

The same cervical collar that cost $12 at Georgetown Hospital cost $30.52 at George Washington Hospital. At a medical supply store, it retails for under $10. Georgetown charged 50 cents for one valium; GW charged 83 cents. For simply filling with water a small humidifier owned by the patient, GW charged $31.50 a day. That is more than the cost of the humidifier itself.

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Courtesy of Lockheed

The Flying Lazarus

By Fred Kaplan

At 8 a.m. for most of last spring and summer, about a dozen men assembled three or four times a week in a Pentagon office. The group met with the blessings of—and frequently reported to—Frank Carlucci, then deputy secretary of defense, and its members included Lt. General Kelly Burke, Air Force deputy chief of staff for research and development; Lloyd Mosemann, Air Force deputy assistant secretary for logistics; Major General Guy Hecker, Air Force legislative liaison; and a gaggle of various generals, colonels, and majors. Another key participant was one Richard Cook, Washington vice president for Lockheed.

Cook's presence on the small panel spoke directly of its purpose: to direct an intensive lobbying and propaganda campaign to save congressional funding for an Air Force cargo transport airplane called the C-5B. This was a reincarnation of Lockheed's C-5A, a plane of the 1960s whose name had become virtually synonymous with enormous cost overruns, frequent mechanical failures, and a dismal performance record. When Pentagon analyst A. Ernest Fitzgerald revealed to Congress in 1969 that the C-5A was over budget by $2 billion, it was then the biggest cost overrun ever recorded. A few years later the Air Force discovered that the wings on the giant plane cracked under normal operating conditions, requiring an additional $1.5 billion in repairs. By this time, the C-5A production line had long been shut down.

Yet here the C-5 was, trying to take off again in the 1980s. And once again, helping to push it off the runway were some of the highest officials in the Pentagon.

Splashy articles in major newspapers last June publicized the activities of the group—known as the C-5B Group—which met nearly every morning. The C-5B Group had foolishly been entering its "action reports" in a computer file, and a dissident inside the Pentagon leaked one of the printouts to a private Washington watchdog group called the Project on Military Procurement, whose director, Dina Rasor, gave copies to a few reporters.

Yet as embarrassing as the disclosures were, they ultimately had little effect on the outcome. On August 18, a conference committee of Congress voted to authorize $860 million toward building 50 C-5Bs that would eventually cost

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$10.8 billion. By approving the C-5B, Congress rejected another cargo plane (the McDonnell-Douglas C-17) that the military claimed was far more versatile, and passed up another option (the Boeing 747) that was far cheaper and hauled more cargo.

While the machinations of the C-5B Group certainly played a key role in the plane's success, they constituted but one skirmish in a much broader campaign to put the C-5B back in action and to save a faltering Lockheed from taking a bath. Viewed as a piece—with the aid of interviews with several participants and hundreds of pages of internal Pentagon memoranda (some provided through the Project on Military Procurement, some obtained directly from Pentagon officials)—the saga of the C-5B presents an unusually well-documented case study of how the Pentagon does business. Above all, the C-5B fight offers a fascinating glimpse into what one Air Force official calls "the military-industrial complex at work, stark naked, self-revealed and self-identified."

The Spruce Goose Of Airlift

The C-5's second coming began in the spring of 1980. The Pentagon had established a requirement for a Rapid Deployment Force (RDF), a multiservice force that could quickly be mobilized for combat to some vital trouble spot, most likely in the Persian Gulf, to protect oil supplies, counter Soviet aggression, or whatever. The key word was "rapid" since that region sat halfway around the globe.

To Pentagon officials, the new mission meant more airplanes and cargo ships to move more soldiers and supplies than they had previously figured on. They felt that new airlift planes would be especially needed, particularly planes that could carry "outsized" cargo, meaning very large and wide pieces of equipment such as tanks, the newest infantry fighting vehicles, helicopters, certain missiles, huge trucks, asphalt dryers, and bakery bins. Accordingly, the Pentagon asked Congress to fund research and development for a new out-sized cargo plane tentatively called the C-X.

Two competitors soon emerged for the C-X contract: McDonnell-Douglas, offering an entirely new airplane design called the C-17, and Boeing, with a similar design. Lockheed early on had proposed a new version of the C-5, but in a letter dated April 24, 1981, Secretary of the Air Force Verne Orr told Senator John Tower that because it "cannot meet the minimum requirements specified in the C-X [competition]. . . the C-5 aircraft is no longer being considered as a candidate."

On August 26, McDonnell-Douglas was declared the winner and, on September 8, the C-X was officially changed in name to the C-17. But for Lockheed the fight was just beginning. Six days after the C-17 became official, Lockheed sent the Pentagon an unsolicited proposal for the updated C-5.

All that fall, memoranda swirled inside the Pentagon reiterating that the C-17 was the best pick and the C-5 was unsuitable. Typical was a memo in November from General W.H.L. Mullins to Air Force Chief of Staff Lew Allen: "the C-5 does not have the capability to perform the total wartime airlift missions." He also noted that it cost more per flying-hour to maintain the C-5 than any other plane, and that "while the 77 C-5As represent less than one percent of our [aircraft] inventory, they consume 14 percent of the [spare parts] budget." Moreover, since the C-5 is so big and since it cannot move in reverse, its poor maneuverability "limits its ability to operate at most fighter-type bases."

Major General Perry M. Smith, an ex-wing commander at the U.S. air base in Bitburg, West Germany, was so moved by the prospect of more C-5s that he sent an unsolicited letter to James Wade, deputy secretary of defense for research and engineering. "During my two years at Bitburg," he wrote, "the C-5 landed there once to deliver the F-15 simulator. It could not get off the runway since the taxiways were too narrow. Even if it could get off the runway there was practically no place to park it without seriously interfering with *peacetime* operations." Other memos noted that the C-5 could be used only on major airfields, whereas the major need in airlift was for planes that could land on shorter, sometimes makeshift airstrips that were situated much closer to the area of battle, where supplies are most quickly needed. The C-17, Air Force officers wrote time and time again, could be used for both missions. This dual capability was a primary requirement in the C-X competition, and the C-5 failed on eight of the ten minimum requirements.

The C-5 was inferior in many other respects. According to an Air Force "point paper" of November 2, the Lockheed warranty on the C-5 would not cover performance of subsystems or corrections requiring more than 200 manhours to repair. Nor did it cover the cost of spare parts and training equipment. The C-17's warranty covered everything. Given the C-5A's checkered and costly past, it was only prudent that warranties be heavily weighed in any decision.

With all this in mind, on November 25 the Army and Air Force chiefs of staff and the

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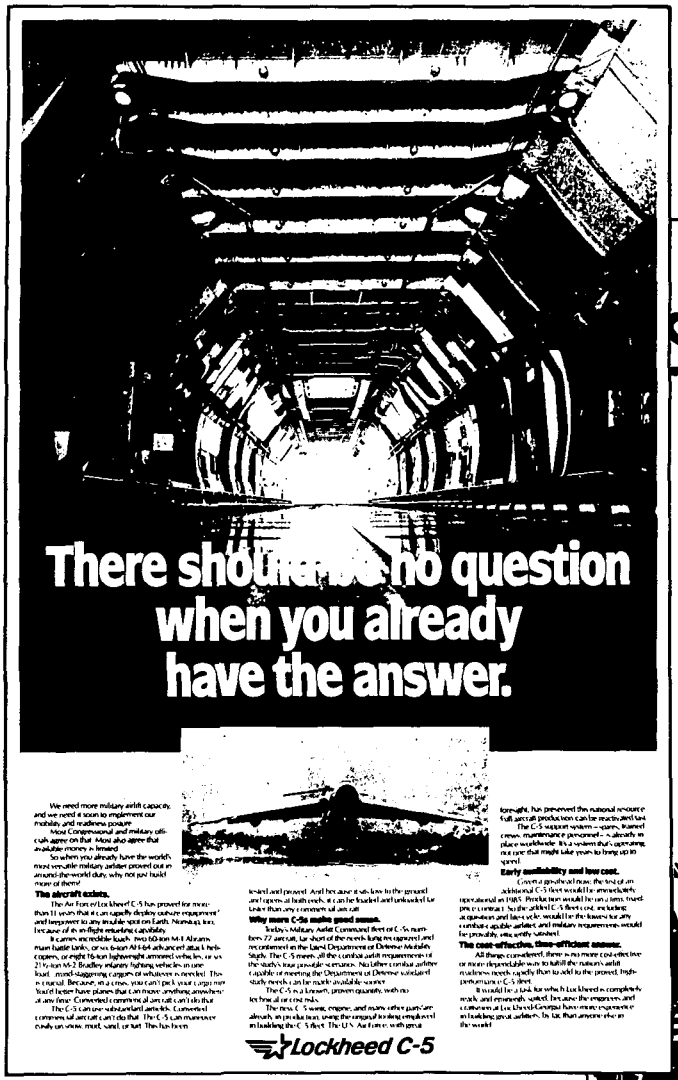
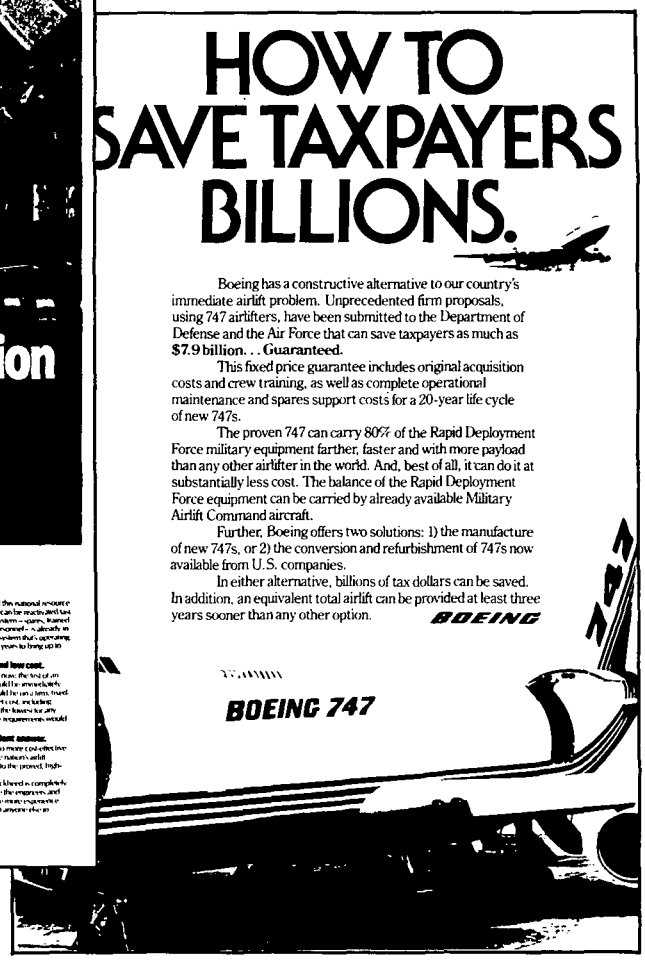


During the congressional fight over airlift, both Boeing and Lockheed waged high-budget advertising campaigns.



commandant of the Marine Corps co-signed a letter to the congressional leadership, endorsing the C-17 as the new airlifter. On December 7, the Pentagon sent Congress the official certification for the C-17. On January 8, 1982, Secretary of the Air Force Verne Orr briefed Frank Carlucci on the need for the C-17, commenting explicitly on the C-5's bad contract warranties, its terrible maintenance record (75.6 maintenance man-hours per flying hour, compared with 23.7 for the C-130, 25.1 for the C-141 and a projected 18.6 for the C-17), and its limited maneuverability on runways. Orr's briefing was extraordinary in that service secretaries almost never deprecate their own weapons systems, no matter how old and rundown they may be.

But by mid-January, word was racing around the Pentagon that something had gone wrong: Carlucci and Defense Secretary Caspar Weinberger overruled the Air Force and chose the C-5, not the C-17. This was confirmed on January 25 at a meeting of a Pentagon ad hoc committee on airlift, chaired by Alton Keel, Air Force assistant secretary. The meeting was purely pro forma. According to documents on the session, Keel announced at the outset that the C-5 was the winner. The Army representatives asked Keel for the data on which the decision had been made; Keel refused to share any of it. According to several sources, at no point before or even shortly after the decision were the service chiefs consulted or informed.

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It must be noted here that the Weinberger-Carlucci decision was not a case of "whiz kids" in the Pentagon doing better systems-analysis than the military brass and demonstrating that the C-5B was in fact the more "cost-effective" solution. Caspar Weinberger is no Robert McNamara; on practically every other procurement decision over the past two years, Weinberger has bowed to the wishes of the service chiefs—indeed has delegated to them practically all authority over such matters. Besides, there were no Pentagon studies favoring the C-5B. In fact, an internal memorandum, dated September 14, 1981, by airlift analysts inside the Pentagon's office of program analysis and evaluation—the successor to McNamara's office of systems analysis—leaned in favor of the C-17.

So what happened? Some clues can be found by retracing the chronology and focusing on some corporate and bureaucratic developments hovering in the background.

Plane Dealing

By the late spring of 1981, it was becoming all too clear that Lockheed was in serious financial trouble. The federal government had bailed out Lockheed to the tune of $400 million in 1971, which helped the company cut its debt from $900 million that year to $390 million by the end of 1978. However, Lockheed was now heavily in debt once more, owing $944 million to the banks due mainly to financing of the L-1011, its commercial airline. The L-1011 TriStar had been a disastrous liability; since its start in 1969, the plane had absorbed $1.4 billion in Lockheed losses. (Indeed, capital costs on the L-1011—along with C-5A cost overruns—had prompted the 1971 bailout.) In May 1981, Lockheed chairman Roy A. Anderson threatened to cancel the L-1011 unless purchases picked up, telling *Business Week* that bankers were starting to have "concerns about our borrowing level."

Even though the C-5B had not only been rejected by the Pentagon, but almost laughed at, still, the stakes were simply too high for Lockheed to concede. So Lockheed officials, together with their allies inside the Pentagon, began a concerted lobbying and public relations campaign that a scant seven months later succeeded in bringing the C-5 back from the dead.

Lockheed's first strategic move was well-

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The C-5B had not only been rejected by the Pentagon, but almost laughed at. Still, the stakes were simply too high for Lockheed to concede.

grounded in the tradition of the pork barrel. Though the C-5A had been built entirely in Georgia, Lockheed announced that the production of the C-5B's cargo floor and certain sections of its main frame—35 percent of the contract's cash value—would be moved to the California plant. When asked why, Lockheed spokesman Wally Raabe replied, "Partly to spread the work around—they need the work in California." Politically, it makes sense to engage the interests of as many members of Congress as possible, and California has more than any other state.

Essential to the Lockheed rescue operation, according to several officials, were Carlucci and especially Richard DeLauer, undersecretary of defense for research and engineering. As Pentagon acquisition chief, DeLauer is responsible for maintaining the "defense industrial base." Officials report that DeLauer is fanatical on the subject, that his attitude is that we "can't afford to let *any* of the manufacturers falter." Robert B. Ormsby, president of Lockheed-Georgia, later admitted to *Business Week*, "It was not a case of if we didn't win this one we'd turn out the lights. But without the C-5B restart we would have been fairly flat for the next five years."

The official reason for picking the C-5, of course, had little to do with bailing out Lockheed or protecting the "industrial base." On February 15, 1982—not six weeks after his briefing to Carlucci—Verne Orr played "good soldier" and wrote a memo to the Joint Chiefs of Staff in support of the C-5B. He explained that Weinberger had become so alarmed by the projected airlift shortfall that he offered to double the size of the airlift account in the FY 1983 budget. With this new manna from heaven, production of the C-5B could be accelerated so that by FY 1987 the United States would have 17 more C-5Bs than C-17s—or 3.8 million ton-miles per day additional airlift. This was the same reasoning given by General Kelly Burke at a January 26 press conference to announce the C-5 decision.

In a recent interview, General Guy Hecker, the leader of what would become the C-5B Group, said there was much concern in high circles about "the war threat" of the mid-to-late 1980s. "If there wasn't this war threat, you know, then there would have been nothing wrong with the C-17," Hecker said. "But there *was* this war threat and we need the extra airlift right away, and that's why we need the C-5."

Hecker did not explain just what this "war threat" was, nor why, if speed was all-important, the Pentagon did not choose to buy more commercial 747 wide-bodied planes. Some were already part of the Civil Reserve Air Fleet, which consists of civilian planes the military leases in the case of an emergency. Everyone agreed that the United States could have far more 747s much sooner than it could get C-5Bs or C-17s.

The contradiction is erased, however, by realizing that the official explanation is not the complete one. After Carlucci heard Verne Orr's January 8 briefing, he sent to his civilian program analysts a list of tasks. Among them was to calculate how many additional C-5Bs could be delivered by various dates if the airlift budget were, say, doubled. He did not, however, ask how many additional C-17s could be purchased under the same assumptions. Nor did he pose any questions to analysts in the Air Force.

Later, McDonnell-Douglas executives demonstrated that they, too, could have built more C-17s with the extra money. But nobody cared. The point is that Carlucci wanted the C-5B and, sources say, he was willing to offer the Air Force a political bribe: in exchange for its support for the C-5B the Air Force could expect an increase in its share of the defense budget. It is widely believed in the Pentagon that to Orr, Kelly Burke and Joint Chiefs of Staff chairman David Jones, the extra money was the political payoff, not the analytical reason, for their acceptance of the C-5B decision.

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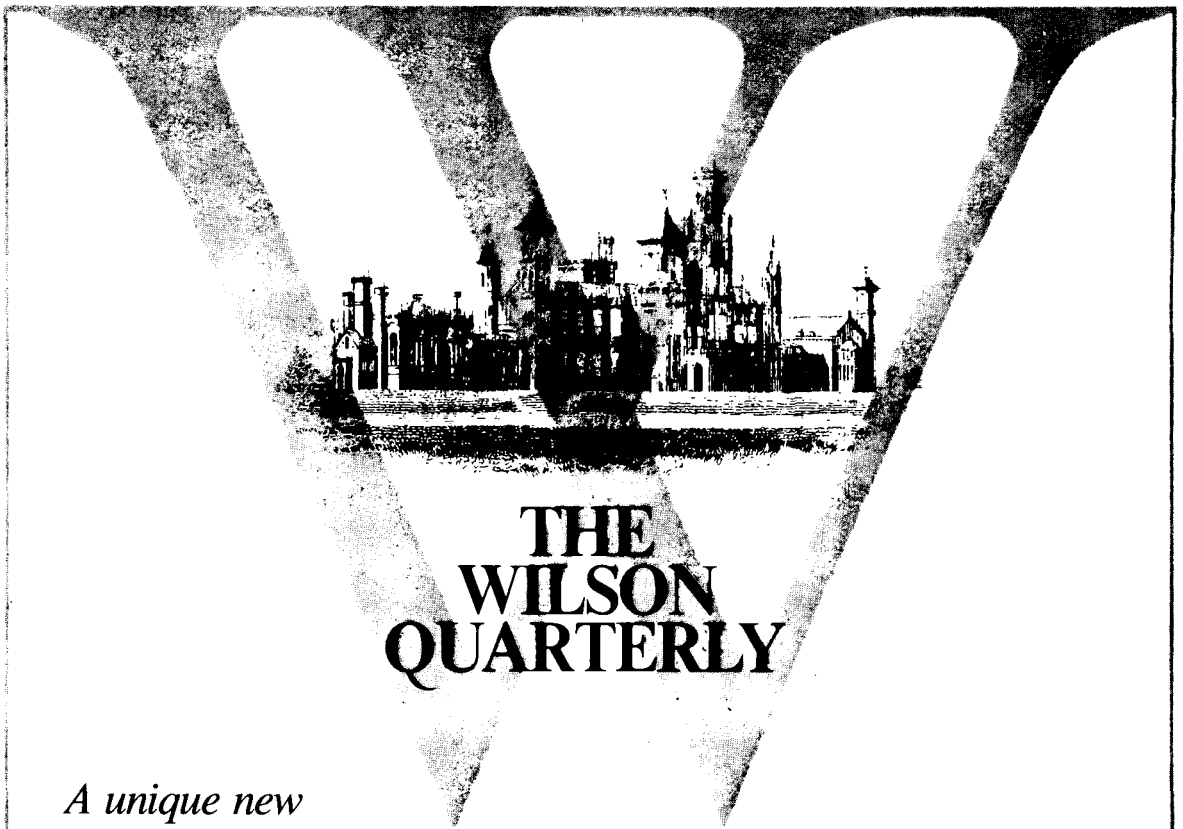

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Mil Specs Are Forever

At this point, the propaganda campaign commenced, part of which could fairly be called a cover-up. The Air Force Systems Command was informed on February 23, 1982, that, as a result of the January "escalation rates" calculated by the office of the secretary of defense, the C-5B program would cost $675.5 million more than anticipated—or $8.8 billion rather than $8.1 billion. On April 8, Systems Command knew that, due to another re-estimate, it would cost $979 million more. This information was kept hidden from Congress. (At this writing, the estimated cost of the program is now about $10.8 billion.)

Also in April, the Air Force calculated that the C-5 program would slip in its delivery schedule by six months or more unless Congress granted an additional $216 million to airlift funds in the FY 1982 supplemental bill. This, too, was kept from Congress. In short, the rationale for the C-5B was vanishing into thin air. (The schedule, in fact, has now slipped to the point where the delivery date for the C-5B will be about the same as it would have been for the C-17.) But the decision stuck.

The contest, however, was far from over. Ordinarily, when the Pentagon decides to procure one company's weapon over another's, the loser accepts it graciously. The losing company knows, among other things, that its turn will soon come. But this decision was too outrageous. Lockheed had circumvented the entire procurement process; the Pentagon had aided and abetted in this thievery. Carlucci had broken the rules first, so the manufacturers that had originally beat Lockheed fair and square felt righteous in bending the rules, too. If Lockheed had gone around the procurement process, its opponents would go over everybody's head, straight to Congress.

McDonnell-Douglas had little luck in pushing the C-17 in this round. One former Senate aide recalls: "McDonnell-Douglas wasn't very good at working the Hill." Besides, the C-5B decision also gave McDonnell-Douglas 44 extra KC-10 cargo-tanker planes—a militarized version of its DC-10s, whose production line was otherwise about to end. This sweetened the deal enough to keep McDonnell-Douglas from pressing to the hilt.

But Boeing ended up with no consolation prize, which partly explains why it put up a fierce struggle to replace the C-5B outright with its own "B-747," a militarized version of its commercial 747. On March 17, Boeing submitted an unsolicited proposal for its plane to serve as the Air Force's airlifter. Suddenly the debate shifted: no longer was it the C-5 versus the C-17; it was now the C-5 versus the 747. And on that territory, the military could unite around the C-5.

It wasn't that the 747 was a bad plane. Indeed, several independent analyses revealed that it was, on many scores, better than the C-5. It could carry 35 percent more payload over a 15 percent longer range and take off from runways 20 to 40 percent shorter. It was more reliable and easier to maintain; both planes could be loaded and off-loaded at roughly the same speed. But to a military bureaucrat, there are few things worse than accepting a commercial item for a military mission. Doing so would be to take the first step in busting up the entire military procurement structure—which allows the brass and the leading arms contractors to dominate all defense planning through the imposition of "military specifications" (or "mil specs"), even when civilian equipment can often do the job more efficiently. It is for this reason that not even the eminently sensible Civil Reserve Air Fleet has ever gained many great advocates in the Pentagon. For the same reason, the Pentagon was willing to campaign vigorously against the 747, even at the expense of infuriating one of its most powerful congresssional allies: Senator Henry Jackson, of Washington, where Boeing has its headquarters.

As one veteran weapons analyst in the Pentagon puts it, "If there's no airlift design section at Wright-Patterson [Air Force Base], that's a few hundred jobs right there—and all the staffs above them at command headquarters. All of them go out of business." Brightly lucrative retirement prospects for Air Force officers would also black out. "If commercial airliners are the rule in the Air Force," the analyst continues, "then retired colonels specializing in airlift are as useless as tits on a boar hog. Commercial airliners don't need those guys."

In short, no more "mil specs," no more control of the procurement process—or control over the future.

The Boeing cause was taken up with great energy by Jackson and Representative Norm Dicks, also from the state of Washington. In the second week of May, an explosive debate over the usually humdrum issue of airlift rocked the Senate. As usual with Senate debates, the clash took shape as an argument over the substantive issues. But in fact it represented full-scale corporate warfare, proxy-style, with Jackson waging the battle for Boeing and Sam Nunn, among others from Georgia and California, feeding Lockheed.

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On May 13, to the astonishment of the administration, Boeing won decisively, 60-39. It was time to get serious, and it was at this point that the C-5B Group was formed and the early-morning political-strategy meetings began. The group resolved that at all costs Boeing must not prevail in the House of Representatives. Lockheed was hardly the only one with high stakes in the outcome; as one congressional aide who followed the action closely put it, "The Air Force felt they had to rally around the C-5B or lose everything."

Boeing, Boeing Gone

The first substantive meeting of the C-5B Group took place May 24, and a computer printout shows such meetings occurring through June 14. Pentagon sources say that, even after the press leaks, the group continued to meet regularly right up to the final congressional vote. Later actions are impossible to track, however, since Lockheed, which owned the computer, electronically erased all records of the group's existence after the news stories first appeared.

The C-5B Group tried to get other defense contractors to lobby, as well. Lockheed was to "get major subcontractors on board and working." The action sheet's update comment read: "Closed. Working hard." On June 4, Lockheed chairman Roy Anderson wrote several airlines—a copy of a letter to World Airways has been obtained—pointing out, in a not-so-subtle fashion, "Forced acquisition of commercial aircraft that the Military Airlift Command would be obliged to use. . . .could adversely impact airline revenues from government contracts."

On June 8, according to *Armed Forces Journal International*, undersecretary of defense Richard DeLauer called Boeing chairman T. Wilson and told him, "We're going to fight you tooth and nail," threatening to "pull the pursestrings" on Boeing's role in the Civil Reserve Air Fleet program. Wilson asked DeLauer whether his campaign would be executed "legally and ethically."

DeLauer responded: "It'll certainly be legal. Ethically? I can't comment."

Other airlines reportedly told Boeing officials that the Air Force—mainly its deputy assistant secretary Lloyd Mosemann (who, after the C-5B finally won, received a $10,000 federal bonus payraise)—had threatened to cancel their contracts with the Military Airlift Command if they lobbied on behalf of Boeing's B-747.

The C-5B Group went after "good liberals," too. The biggest snare was Atlanta Mayor

THE WASHINGTON MONTHLY

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The author explains how a now-retired Air Force colonel, Bob Dilger, procured a weapon for a billion dollars less than earlier estimates. The weapon, a GAU-8 gun, works better than almost any possessed by the military. The colonel, who challenged the entrenched Pentagon procurement process, never got promoted.

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The Cleveland Plain Dealer

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Andrew Young, who the C-5B Group wanted to "work [the Congressional Black] Caucus." The C-5B, Young was told, would provide 8,500 new jobs to the state of Georgia. Young travelled to Washington on June 17 and tried to persuade members of the House Black Caucus of the C-5's merits.

The computer printout revealed that corporate political action committees also played a role in the campaign. Several California congressmen were said to be "PAC-wired." Beside many congressmen's names, various corporate PACs were listed under the column "Contractor Contacts." And the White House legislative staff was ordered into action to bring several undecided Republicans in line.

The group's activities clearly violated a 1948 law prohibiting the use of appropriated funds for publicity and propaganda to influence legislation pending before the Congress—a law that almost all Washington bureaucrats pay lip service to when it suits their purposes but otherwise ignore with impunity.

When reports of the C-5B Group hit the press, Air Force reaction was studiously nonchalant. General Burke told the *Washington Post* that the group typified "democracy in action." Other spokesmen said that the same sort of lobbying had been done on behalf of the B-1 bomber, the AWACs sale to Saudi Arabia, and other major weapons decisions. It was just Pentagon business as usual.

A vigorous debate took place in the House on July 21, consuming 41 pages of the *Congressional Record*. In the end, Lockheed won, 289-127.

There was still the conference vote, however, and several committee staff members asked the Air Force liaison office for additional data: Was it true, as rumored, that the delivery schedule of the C-5B had slipped and that its cost had risen? How did the C-5B compare with the 747 on reliability and maintainability?

The answers were very damaging to the C-5. But the data on cost and schedules were not furnished until August 19, the data on reliability not until August 24. The conference vote—in which the House side won, giving the contract to Lockheed—took place August 18. The Air Force let Congress know the facts not a minute too soon.

Slow Deployment Force

The C-5B scandal appears slightly less extraordinary—though, for that, all the more disturbing—when one considers that debates over airlift have for years been deeply immersed in deception. The requirements for airlift, especially outsized airlift, have always been exaggerated.

A case in point is the Congressionally Mandated Mobilization Study, which Congress in May 1981 ordered the Pentagon to conduct to justify the need for the new C-X aircraft. Key to the requirement for the C-X was a projected 20 million ton-mile shortfall in airlift capacity, half of it in outsized cargo. Yet an analysis by Boeing revealed that the computer model used in the CMMS assumed that only 20 percent of the cargo loaded in the existing C-5A fleet would be outsized. Boeing calculated that if 60 percent of the space had been loaded with outsized gear, the existing C-5 fleet would be adequate for fulfilling its part of the RDF mission, as long as the C-141, C-130 and Civil Reserve Air Fleet planes (including many 747s) carried the smaller equipment. In a memo dated April 12, 1982, the Air Force systems analysis division agreed: Boeing's assumptions about the use of C-5 cargo space were "in accordance with our planning practices." In short, the supposed outsized-airlift shortfall was due not to a shortage of airplanes in the real world, but to a deliberate misallocation of resources in a computer model.

Is airlift the answer at all? For the Rapid Deployment Force in particular, airlift will provide scant supplies, only two or three percent of the equipment transported. The rest—and this is even more applicable to a European war—will be moved via sealift. According to Pentagon analyses, delivery by air of 30 days' fighting supplies for a war in Kuwait would require 252 C-5 sorties, 829 C-141 sorties and 166 sorties of 747s. Assuming that all airlift planes are available, such a feat would take 20 days. If 60 percent are available, it would take 32 days.

On the other hand, a Maritime Prepositioned Force consisting of five ships (costing about $200 million each) docked several hundred miles from a trouble spot could deliver 30 days of supplies and one brigade of troops in seven to nine days. Why doesn't the Pentagon pursue this alternative? "Because that's Navy, not Air Force, so it's not the right answer," says one official who analyzes mobility issues. The Navy program is being funded, too, but "everybody's got to get his piece."

Despite the advice of the military officers who will have to use the airlifters and—more remarkably—despite the known disasters of the C-5 history, the government is about to spend more than $10 billion for another 50 new C-5 planes. As Representative Thomas Downey exclaimed during the House airlift debate, "If the C-5 can come back, so can Richard Nixon." ■

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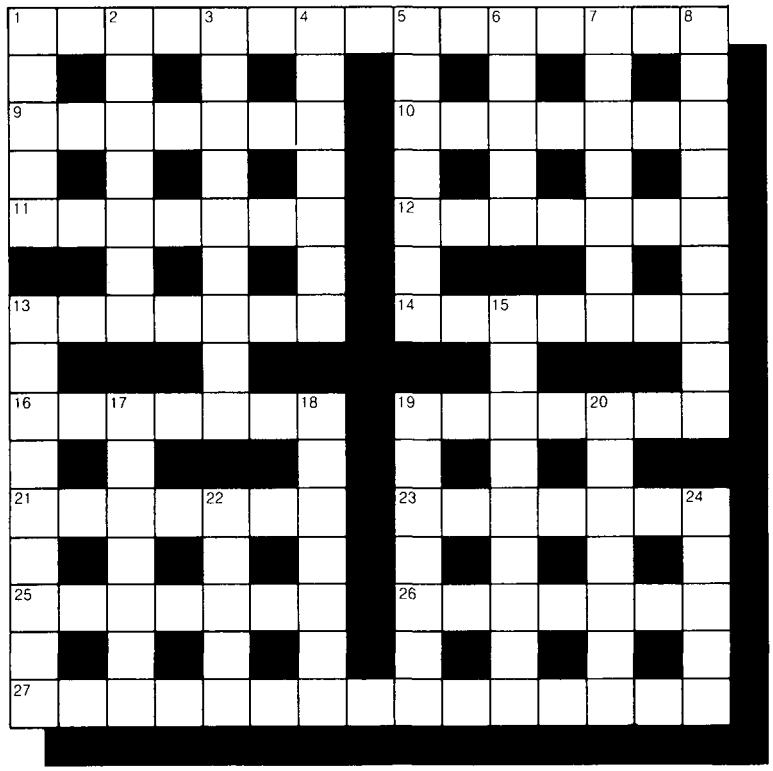
POLITICAL PUZZLE



by John Barclay

The numbers indicate the number of letters and words, e.g., (2,3) means a two-letter word followed by a three-letter word. Groups of letters, e.g., USA, are treated as one word.

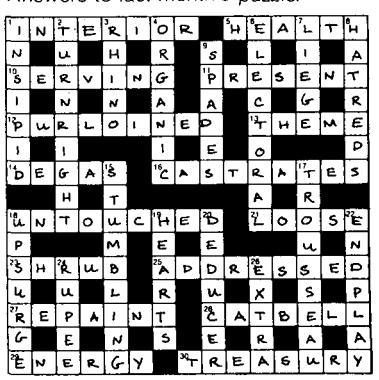
ACROSS

1. Redskins' league and team. (8,7)
9. Stir, stir wet cyclone. (7)
10. Plains draymen? (7)
11. Responses about civil wrongs. (7)
12. Phineas exercised to be fit. (2,5)
13. Justice finds equality in the streets. (7)
14. Clumsily teaches return to state. (7)
16. Sign left ten upset. (7)
19. Involved maps Ted officially approved. (7)
21. Devious, but nothing blue about well-known test figure. (7)
23. Awkward louse to fail. (4,3)
25. Parents manipulated medical instruments. (7)
26. Tell story about close election? (7)
27. Sudden death match in Moscow? (7,8)

DOWN

1. Essence in great tarragon vinegar. (5)
2. Letter about pet lies. (7)
3. Obstruct events hardly ever in ten. (9)
4. Stops record items. (7)
5. Slant small business spiel. (7)
6. Cuts back little old violin. (5)
7. Mean to state period. (7)
8. Imagined steps cued intricately. (9)
13. Crazy roper puts fan on edge. (9)
15. Arrange 100 lilacs as standard. (9)
17. Waves of religious fanatics? (7)
18. Crime arranged for senator. (7)
19. Al Rosen wandering around Mediterranean port. (7)
20. Math computation favoring tunnel? (7)
22. To some degree as is coming up. (5)
24. Honor crazy Eastern tilt. (5)

Answers to last month's puzzle:



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WHO'S WHO in the Administration

The resignation in January of **Richard S. Schweiker** as secretary of Health and Human Services suggests just how deep a commitment the Reagan team feels to the idea of public service. Schweiker is not resigning to take charge of a company on the cutting edge of economic recovery. No, the new job described as "irresistible" and a "blue-ribbon offer" is with a *trade association*. . . . .

White House counsel **Fred Fielding** is the man responsible for sorting out the many issues of conflict-of-interest and integrity that have arisen for Reagan appointees. Recently, for instance, National Security Council aide **Thomas Reed**, who was fined by the Securities and Exchange Commission for using inside information to make more than $400,000 on stock options, was named to an important panel reevaluating the MX missile. Fielding weighed the moral issues and cleared the appointment. You may recall Fielding from an earlier era. As John Dean's deputy he proved his key sensitivity to ethics in government issues by taking the precaution of donning rubber gloves before going through the contents of Howard Hunt's safe.

In the Fred Fielding tradition, the Office of Management and Budget recently issued a report finding that it was entirely proper for **William F. Harvey**, chairman of the government-owned Legal Services Corp, to collect a $221-a-day consulting fee for his driving time to Washington to attend board meetings. "Mr. Harvey indicated that he was working while his wife drove and that the consulting fees were for [Legal Services] work," the report said. . . .

In

HEALTH AND HUMAN SERVICES
Secretary—**Margaret Heckler** was a Republican congresswoman from Massachusetts before her defeat in November.

Undersecretary—**John A. Svahn** has been commissioner of Social Security.

TRANSPORTATION
Secretary—**Elizabeth Dole** has been assistant to the president for public liaison.

TREASURY
Assistant Secretary for Electronic Systems and Information—**Richard Shriver** has been a computer consultant.

AGENCIES AND COMMISSIONS
Director, Arms Control and Disarmament Agency—**Kenneth L. Adelman** has been deputy U.S. representative to the United Nations.

Chairman, Federal Elections Commission—**Danny Lee McDonald** has been vice chairman of the commission.

Member, Interstate Commerce Commission—**Paul H. Lamboley** has been a lawyer in private practice in Reno, Nevada.

Director, National Science Foundation—**Edward A Knapp** has been head of the Los Alamos Laboratories accelerated technology division.

Out

WHITE HOUSE
Soviet Adviser, National Security Council—**Richard Pipes** has resigned and returned to his professorship at Harvard.

HEALTH AND HUMAN SERVICES
Secretary—**Richard S. Schweiker** has resigned to become president of the American Council of Life Insurance.

Undersecretary—**David B. Swoap** has resigned to become secretary of the California State Department of Health and Welfare.

LABOR
Undersecretary—**Malcolm R. Lovell, Jr.** will become a guest scholar at the Brookings Institution.

TRANSPORTATION
Secretary—**Drew Lewis** has resigned to become chief executive of Warner Amex Cable Communications.

AGENCIES AND COMMISSIONS
Director, Arms Control and Disarmament Agency—**Eugene V. Rostow**, fired by President Reagan, will return to his professorship at Yale Law School.

Deputy Director, Arms Control and Disarmament Agency—**Richard T. Grey** had his nomination withdrawn under pressure from Senator Jesse Helms.

Representative, U.S. Mutual Balanced Force Reduction Talks—**Richard Starr** was fired.

Member, Commodity Futures Trading Commission—**James A. Stone**, former chairman of the commission, resigned to start an insurance company in Boston.

Vice Chairman, Interstate Commerce Commission—**Reginald E. Gilliam, Jr.** has resigned.

President, National Consumers Cooperative Bank—**Carol S. Greenwald** has resigned to join the Brookings Institution.

Chairman, National Labor Relations Board—**John van de Water**'s appointment has expired.

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POLITICAL BOOKNOTES

America Afraid: How Fear of Crime Changes the Way We Live. *Ardy Friedberg. NAL, $15.95.*

Arab Reach: The Secret War Against Israel. *Hoag Levins. Doubleday, $17.95.*

Banking on the Poor. *Robert L. Ayres. MIT Press, $25.*

Causes and Cures of Welfare. *Leonard Goodwin. Lexington, $23.95.*

The Clay Pedestal. *Dr. Thomas Preston. Madrona, $12.95.* This is an unstintingly honest and clearly written book about medicine that explains not why health costs so much but why doctors act the way they do. A professor of medicine at the University of Washington, Preston shows the sensitive eye of a cultural anthropologist as he explains how society's traditional reverence for healers and the values taught in medical training convince the physician he is more important than his patients. Preston shows how this attitude can lead to over-treatment and harmful care, to a concern with curing instead of healing, and to the belief that deceiving patients is somehow in their best interests. Physicians can change—but they won't, Preston tells us, unless the public insists on it.

—Toby Cohen

Doing More with Less: Cutback Management in New York City. *Demetrios Caraley. Columbia University, $7.* With local governments being rudely weaned from the federal teat, this Columbia University inquiry into how New York has come back from the brink of bankruptcy provides some timely how-to advice for other troubled cities. The book is based on a series of discussions with New York City's highest officials. What emerges, after the usual chatter about setting priorities, is the necessity for budget directors and chief executives to immunize themselves against the excessive zeal—often well-intentioned—of department heads.

As one city commissioner, a former police department official, said, "I do recall that we went through an [annual] exercise and prepared all these horror stories as to what would happen if they took so much as one horse away, let alone the man on it."

New York got into its pickle the usual way: by spending 13 months of revenue every year and making up the shortfall by borrowing into the future. When the day of reckoning finally came ("Ford to New York: Drop Dead"), the city had

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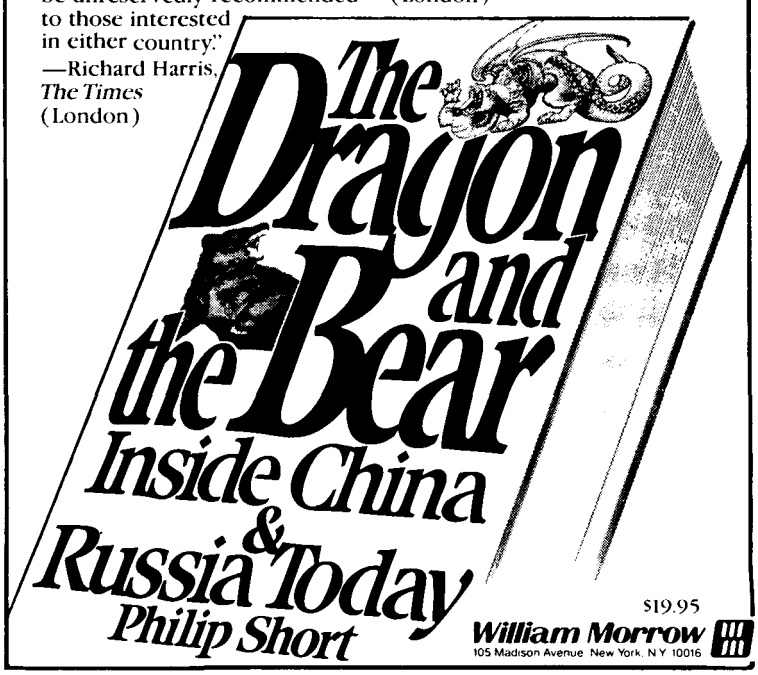
"His book is excellent."
—William Shawcross, *The Sunday Times* (London)

The Russians and the Chinese—what are the significant differences between these two great communist powers? How do their people live, think; what are their hopes and fears? "No one could be better placed to draw up the balance sheet than Philip Short, the BBC's correspondent first in Moscow and lately in Peking. He is an admirable witness...His book can be unreservedly recommended to those interested in either country."
—Richard Harris, *The Times* (London)

"Mr. Short is especially skillful in charting a course through the intricate maze of internal Chinese politics...He is also that best kind of foreign correspondent: one who feels a deep sympathy for the people and the territory he is covering, yet who never forsakes a cool objectivity in assessing their triumphs and tragedies."—*The Times Literary Supplement* (London)



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few options. It lacked the federal government's capacity simply to print more money to stay solvent and was restrained from raising taxes further for fear of driving businesses out of the city. So it bit the bullet and, to paraphrase the rather euphoric title of the study, made do with less. A key reason for its success lay in the rough-and-tumble political skills of Mayor Ed Koch, who managed to broker shared sacrifices among the city's various special interest groups.

New York City certainly isn't out of the woods yet. But since 1975 it's cut its civil service by 60,000—one quarter of its former work force—and is much healthier for it.

—*Leonard Reed*

The Great Energy Scam: Private Billions vs. Public Good. *Fred J. Cook. Macmillan, $14.75.*

How Children Learn. *John Holt. Delta, 14.95/$7.95.*

Japan Examined: Perspectives on Modern Japanese History. *Harry Wray, Hilary Conroy, eds. University of Hawaii, $22.50/$12.95.*

Media Speak: How Television Makes Up Your Mind. *Donna Woolfolk Cross. Coward, McCann & Geoghegan, $13.95.*

News Watch: How TV Decides the News. *Av Westin. Simon & Schuster, $15.95.* The author, a long-time network news producer, quotes Edward R. Murrow on television: It can "teach. . . illuminate. . . [and] even inspire, but only to the extent that humans are determined to use it to those ends." Otherwise, the sage said, "it is merely lights and wires in a box."

Westin uses Murrow's picture on his cover to sell the book, but he prefers lights and wires to illumination. His celebration of the technologically turgid industry Murrow would have despised comes through in nearly every anecdote. Thus Daniel Schorr's dramatic reporting on the building of the Berlin Wall is overshadowed by a long-winded account of shipping CBS video tape back from Germany. And coverage of the attempted assassination of Gerald Ford is reduced to kudos for a quick-on-the-draw camera crew. The book is a self-congratulatory bore.

—*Emily Lazar*

The Truth About the Neutron Bomb: The Inventor of the Bomb Speaks Out. *Sam Cohen. Morrow, $12.50.*

U.S.S.R. in Crisis: The Failure of an Economic System. *Marshall I. Goldman. Norton, $14.95.*

Without Precedent. *John G. Adams. Norton, $17.50.* This account of Joe McCarthy's political life by the counselor to the Army during the famous Army-McCarthy hearings is a book one might have expected to have been written right after the fact—that is, 30 years ago. Historical perspective has unfortunately proved of little benefit.

The plot is familiar: supportive politicians (most notably, Senator Everett Dirksen), spineless Eisenhower bureaucrats, and the (proverbial) manipulated press all helped Tail-Gunner Joe. The only new material here involves the mechanics of the hearings from the Army's side; Adams's insider's view gives this section some life.

—*John Harris*

Gene Tupper The Peninsula Times-Tribune

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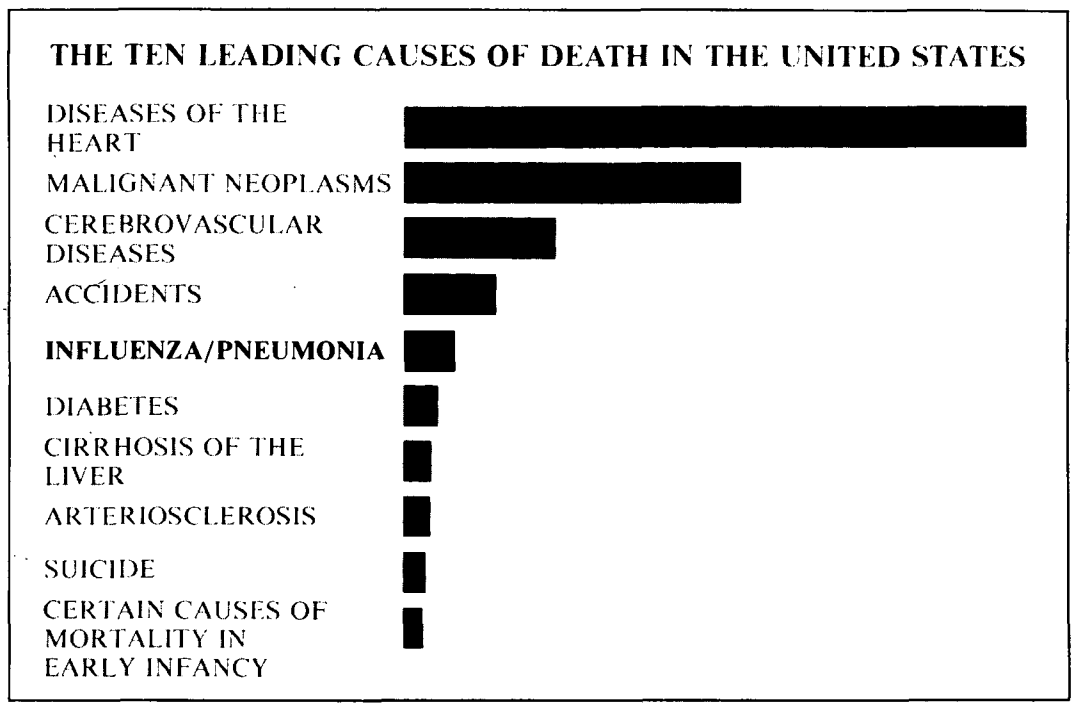
The disease that will not die... an untold story.



SOURCE: National Center for Health Statistics—Monthly Vital Statistics Report, Vol. 29, No. 6, Supplement 2, 1978.

Many of us believe that pneumonia is a disease of the past—long ago conquered by antibiotics. The fact is that bacteria-caused pneumonia strikes between 400,000 to 500,000 people, causing from 20,000 to 50,000 deaths each year, according to U.S. Government reports. A high percentage of these illnesses and deaths can be prevented—by a vaccine that has been developed, tested and proven effective.

A few million people are immunized; many millions more should be. Unfortunately, the very people most susceptible to pneumococcal pneumonia—the elderly, those with a history of chronic ailments, such as respiratory illnesses, heart disease, diabetes and others—may not know about the vaccine. They need to be informed.

Public attention, mainly through the media, has been mobilized to fight against disease—notably polio, other childhood diseases, hypertension, glaucoma, TB, and others. The time is now for pneumococcal pneumonia to be on that hit list.

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For information about pneumococcal pneumonia vaccine, call or write:
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